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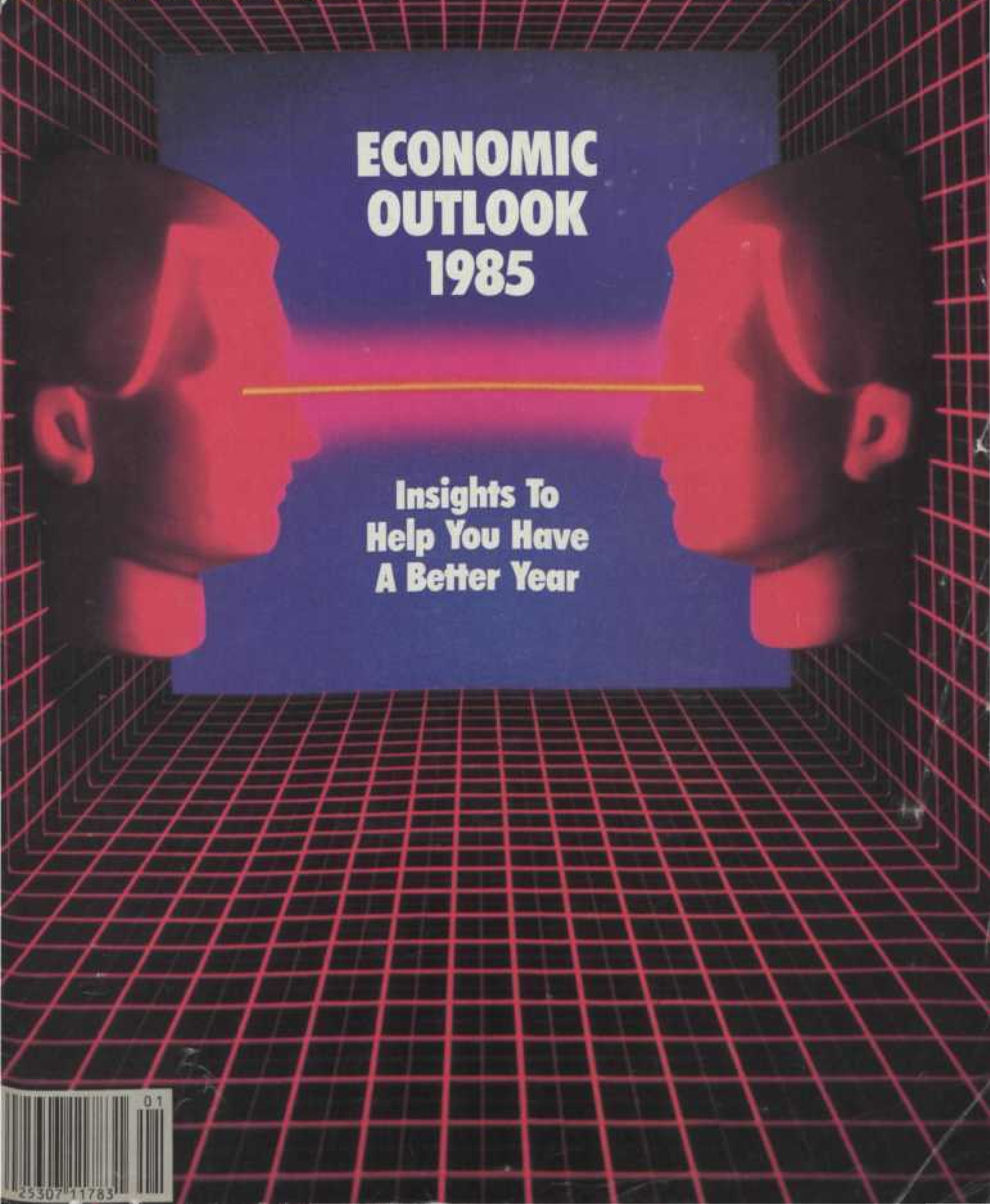

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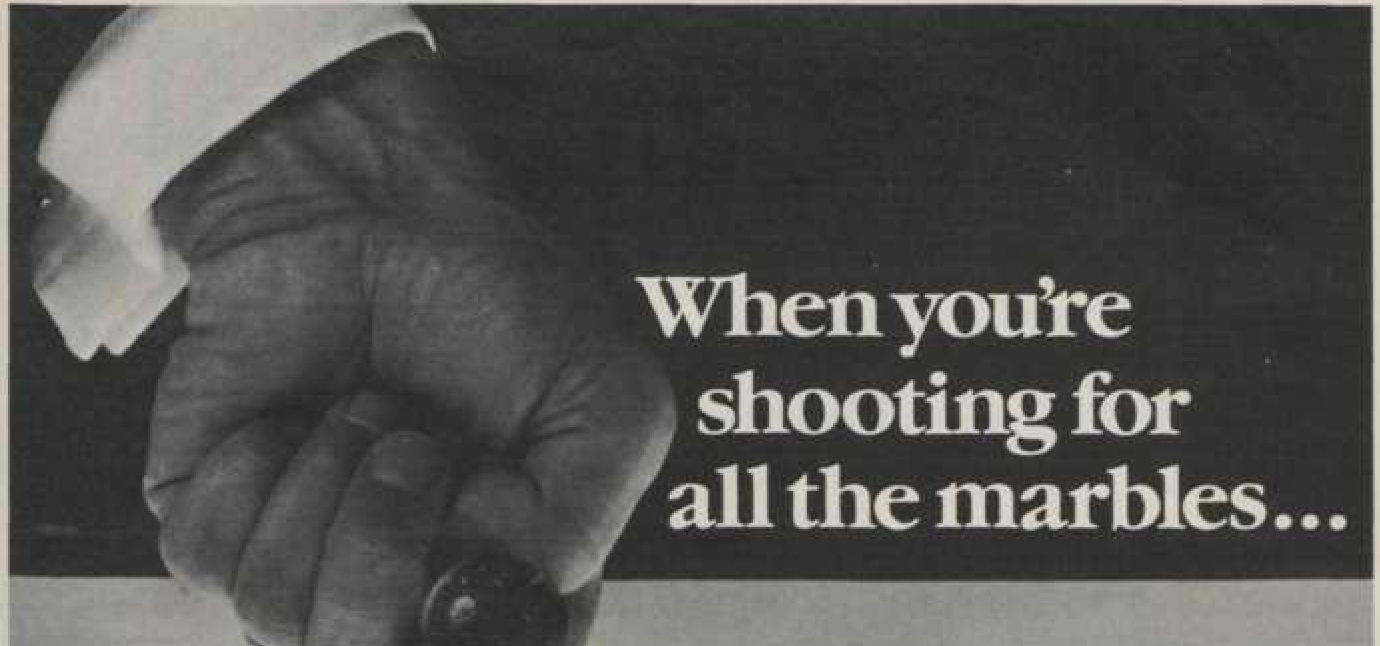

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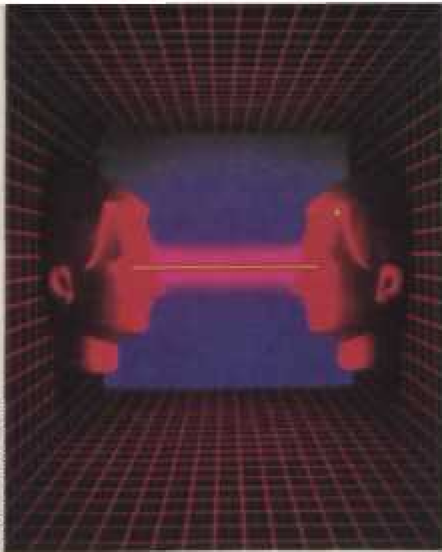

A NATION'S BUSINESS special issue on the economic outlook . . .

. . . From the prospects of the high tech industry . . .

. . . To the impact of government leaders like Rep. Michel and Sen. Dole.

ECONOMIC OUTLOOK

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LETTERS

Writing Wrong

"When Written Words Fail You" [November] goes too far in its focus on "fatal ills" in business writing and on pathological nomenclature ("atrophy of the position of emphasis," "hypertrophy of the noun"). All very clever, but the joke is on us. The article only adds to our fears that we write "wrong."

Improving writing is more a matter of improving writers—and their writing confidence—than it is of improving specific examples of writing. Even if we could actually avoid the 10 "fatal ills" listed, we would still be pen-tied—like most other Americans.

International surveys have shown that Americans are the most self-conscious of all peoples in using their native language. Eight of ten times that I am introduced as a writing consultant, the person says not "glad to meet you" but "I'd better watch my grammar" instead.

WARREN E. COMBS
President
Erincourt Consulting
Athens, Ga.

J. Douglas Andrews of the University of Southern California is quoted in the article as describing his school's new business grammar hot line as an eventual "electronic Grand Central Station."

We hope that by the time the service begins operating it will have been programed to signal that "Grand Central Terminal" is the correct name of that famous depot back east.

FRANK MCNEIRNEY
Director, Communications
National Beer Wholesalers' Association
Falls Church, Va.

Unity in diversity

Re: "Land of the Bland" [James J. Kilpatrick, November].

America is truly a melting pot that gives us different accents, architectural styles and foods, and, in general, different ways of thinking. If we are to remain a strong nation, these differences should be maintained and even encouraged, as Kilpatrick suggests.

Some years ago, however, Kilpatrick wrote an article opposing bilingual education. He argued that American kids should be taught in English, our national language.

I agree that we must all speak in

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Neither Social nor Secure

DURING THEIR URGENT debate of October 7, Walter Mondale baited the President: "I have proposed over $100 billion in cuts in federal spending over four years, but I am not going to cut it out of Social Security and Medicare." The President was not about to be outpledged. "I will never stand for a reduction of the Social Security benefits," he said, "for the people who are now receiving them."

Watching this forensic exchange on TV, I made a note to score one point for Ronald Reagan. At least he had limited his promise to those retirees "now" receiving benefits. The next day saw my faint enthusiasm squelched. White House aides, having read the transcript closely, discovered that cautious "now" and rushed forth with a statement of correction and amplification. The President intended to say that he would never stand for a reduction in Social Security benefits for anyone, any time, *in saecula saeculorum*, world without end, amen.

Well, bosh. I am not running for office and do not tremble at dire prospects of political reprisal. We must talk seriously about our Social Security system. The system is in trouble—not short-term trouble, but long-term trouble. The system would be in worse trouble if it were not for the statesmanship of Congressman Jake Pickle (D-Tex.). He fought successfully in 1983 for a change that by 2027 will extend the age at which a retiree can receive full benefits from 65 to 67. The change makes sense.

Changes must be made, and now is the time to consider them.

But if a terribly divisive conflict is to be avoided, other changes must be made, and now is the time to consider them. In times past we have witnessed fratricidal bloodshed, both metaphorical and real, between North and South, between farm and city, between management and labor, between rich and poor. The coming battle, only 20 or 30 years away, will pit young against old.

The present system of social "insurance" supposedly relies upon a "trust fund," but the system is not insurance, and the trust fund is a joke. In point of fact we have a system by which income is transferred directly and immediately from productive workers to workers who no longer are producing, that is to say, from the relatively young to the relatively old.

In a recent monograph for the Heritage Foundation, Peter J. Ferrara says that projections based on the most realistic assumptions indicate that to pay the benefits promised to today's young workers, total Social Security tax rates eventually would have to be raised to at least 33 percent of payroll. That would mean a Social Security tax of $6,700—half from the employe, half from the employer—on a worker earning $20,000. At some point, political rebellion will come.

Ferrara's paper is included in the massive "Mandate II" prepared by the Heritage Foundation after the Reagan landslide. Here he renews a recommendation he has made before. He would create "Super Individual Retirement Accounts." Each year a worker could contribute an amount equal to 20 percent of his Social Security taxes to his own Super-IRA and instruct his employer to make matching deposits. Both worker and employer would receive dollar-for-dollar income tax credits for these contributions. At their option, workers could elect to remain in the system as it is.

Eventually those workers who had taken the route of the Super-IRA would retire; their Social Security benefits at that time would be reduced according to their lifetime record of taxes and deposits. Ferrara also would create a corollary system of term life insurance obtained through private firms.

The approach has a host of advantages. It offers at least a degree of choice, which is always a good thing in a free society. It would create new reservoirs of investment capital. It would be much more equitable than the present system, for each worker's benefits would be directly related to each worker's contributions. At the worker's death, something would remain for his survivors.

Almost five years ago, in May, 1980, Chile put into operation a plan that resembles the Ferrara plan. Chile's Social Security program had been greatly complicated by the fact that workers in different occupations paid different taxes and received different benefits. Under the new program, workers are free to choose an alternative plan of individual personal accounts that are maintained under trust in private financial institutions. If Chile can take so bold and imaginative a step, why should a similar approach be banned from high-level consideration here?

THE ANSWER to that rhetorical question is "politics." The Heritage Foundation no sooner had released its recommendation of the Ferrara program than the White House turned even whiter. No way! Not us! Yet a plan that offers a Super-IRA account for future workers would not take one penny in benefits from retirees now on the rolls. In the short term it would cost the Treasury; in the long term it would save billions. The idea makes sense. No wonder no politician will touch it.

WASHINGTON LETTER

► EARLY MONTHS OF PRESIDENT Reagan's new term will present him with leadership challenges far more difficult than most he faced in first four years. Consider the big ones: Maintaining economic growth while avoiding resurgence of inflation, bringing deficit down without tax increases, cutting spending programs that have support of powerful interest groups, defusing tax reform issue, preserving military buildup in effective but economical way, fostering free trade policies in face of record trade deficits, pursuing arms reduction agreements with Soviet Union while opposing Soviet efforts to extend influence in Central America, other parts of the world.

► PRESIDENT WILL HAVE STRATEGIC opportunities to employ his legendary communications skills on behalf of his policies on three occasions this month alone. Inaugural address, State of the Union message and new budget proposals will give him good start toward rallying public support for what will be long, hard fights with divided Congress. Strategy will be to force opponents, primarily House Democrats, to choose between Reagan formula for deficit reduction via spending cuts and economic growth on one side, tax increases on the other.

► TAX REFORM PLAN initiated by Treasury Department exploded overnight into one of biggest business issues in many years, but don't expect prompt resolution. Next move is up to President, who will indicate what parts of plan he is prepared to recommend to Congress. Won't be fully Treasury plan, which has something for almost everybody to oppose. Congress will then work its will on presidential recommendations, and its final product will be subject to his veto, which would be subject to congressional override. So there's uncertain path ahead for tax reform.

► AMONG SLEEPERS IN TAX PLAN from employer/employe perspective are recommendations for eliminating tax advantages of popular 401(k) retirement savings program and so-called cafeteria benefits programs that allow workers to tailor various types of coverage to individual needs. Child care benefits and services would be taxable to recipients, as would awards, education assistance and death benefits to surviving members of workers' families. Health insurance premiums that exceed $175 for family coverage and $70 for individuals would also be taxable income to the employe. Also: Early retirement (presumably before age 59½) would trigger 20 percent excise tax on distribution under pension and profit sharing plans (or 10 percent if used for home purchase).

► DON'T FORGO INVESTMENTS out of concern over possible tax law changes, White House advises business people. Investment-related changes would be phased in, none would be retroactive. These assurances result from surge of company decisions to defer investments in face of uncertainties raised by proposals for changes in tax treatment.

► NEW WASHINGTON BUZZ WORDS include "two-track" and "gridlock." Explanations: While some congressional leaders argue that deficit reduction should be given priority over tax reform in what will be long and complex committee hearings and floor debate, others believe they could be handled simultaneously on separate tracks through the subcommittee and committee system. "Gridlock" refers to possibility of stalemate between White House and Congress on fiscal policy. Scenario envisions President standing firm on domestic program cuts as key to deficit reduction, House insisting answer lies in military spending reductions more drastic than President wants.

LETTERS

continued from page 5
some common tongue, but when you kill a person's native language you also kill his culture. When those different cultures are gone, we will surely become a bland nation eating standardized hamburgers, living in standardized homes and listening to standardized music.

JAKE SNYDER
Toledo

Battle for student minds

"The Big Red Schoolhouse" [November] gave some frightening statistics on the number of Central American students going through Moscow's Friendship University versus the number studying here in America.

We could rapidly turn the battle for these impressionable minds in our favor by offering a graduate program to any students that graduated from Friendship University. Instead of letting those students return to their homes to start spreading what they learned in Moscow, invite them here to see freedom at work.

Then, when those students go home, they should be better prepared to work for peace and harmony in their own countries.

FRANK N. BENDER
Reno, Nev.

Closing the floodgates

In Congressional Alert [October], your advice on the Simpson-Mazzoli immigration bill is that "the employer sanction provisions are unfair to business and unacceptable."

The citizens of this nation want an immigration bill with teeth in it; but whose teeth shall they be? Should we increase the appropriation for the Immigration and Naturalization Service by at least a hundredfold, so that border patrolmen can stand arm-in-arm at our borders, or should every citizen do his part? It is not asking too much to have business owners obtain proof of citizenship from all workers.

Here is a chance to do something constructive for the country, yet we are complaining. If we don't do it, who will?

EUGENE J. CONWAY
President
American Tile Company
of Tucson
Tucson, Ariz.

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Ahead: A Soft Landing Onto Firmer Ground

Today's bad news does not mean bad news for tomorrow's economy, experts say. They predict a period of healthy growth.

THE U.S. COMMERCE Department recently reported another in a series of declines in factory orders. A harbinger of a poor economy in 1985? Not necessarily. On the same day the Commerce report was issued, a survey of business executives whose decisions affect factory orders showed them predicting an improved economy this year.

Business generally views the weakening of the economy over the past few months not as a precursor of another recession, but as a transition from the heady growth of 1983-84 to slower but more sustainable growth.

"The slowdown is not the beginning of a recession," says Ben E. Laden, president of the National Association of Business Economists and chief economist for the investment firm of T. Rowe Price.

Vice Chairman Preston Martin of the Federal Reserve Board is among economists who view the economy's deceleration in the second half of 1984 as a transition from rapid to more enduring growth, but he also says the current period is an uneasy one.

It involves, he says, the risk of a "growth recession"—one in which there is only modest expansion of gross national product and the unemployment rate creeps upward.

Beyond the current downturn, however, economists generally see 1985 as a period of renewed growth, with a continuation of low to moderate inflation.

There are wide differences of opinion on the rate of growth. Projections on the increase in GNP from 1984 to 1985 range from 2 to 4.4 percent. Final figures for 1984 are expected to show a gain of more than 6 percent over 1983.

Perhaps the most optimistic forecast on 1985 growth—4.4 percent—comes from Richard Rahn, vice president and chief economist of the U.S. Chamber of Commerce. He sees the year as a "period of exceptionally healthy business expansion devoid of any serious problems."

At the other end of the scale, Richard Zecher, chief economist for Chase Manhattan Bank, sees the economy weak in the first quarter of 1985. Growth for the rest of the year will reach an annual rate of 3 percent, with the final figure 2 percent, he says.

Zecher believes the economy is already in a growth recession that will have to be overcome to clear the way for a healthier expansion.

In between Rahn and Zecher are such economists as Robert Genetski, chief economist of Chicago's Harris Bank, who sees declining output over the next three months followed by a strengthening of the economy. His bottom line is 2.4 percent growth for 1985.

Laden, of the business economists' association, reports that a survey of members shows most expect the economy to grow at a 3 percent annual rate this year, with the expansion continuing into 1986 or 1987.

ANOTHER BUSINESS organization, the National Association of Purchasing Management, anticipates an economic improvement early this year, with growth leveling off in the second half. Half of the 150 purchasing managers surveyed by the association say they anticipate economic improvement in 1985, while only 19 percent say they expect a worsening.

Robert J. Bretz, chairman of the association's business survey committee, says purchasing managers who had watched the economy weaken in recent months are now "guardedly optimistic" that there will be renewed expansion in the first half of this year.

The survey of purchasing executives, whose decisions have a direct impact on output of goods and services (it was the report on their views that coincided with the Commerce Department report on reduced factory orders), reflects the changing business outlook on the economy. In contrast with the 50 percent of members surveyed who now see an improved economy ahead, a survey a year ago showed 86 percent predicting that 1984 would be better than 1983.

PHOTO: LYNN JOHNSON—BLACK STAR

Efficiencies in manufacturing promise big productivity increases. Lower cost—through better use of capital assets—should give U.S. firms an edge over foreign rivals. That should mean more exports as the dollar weakens.

Understandably, the Reagan administration ranges toward the high side of the spectrum in its forecast on 1985 growth.

Treasury Secretary Donald Regan says the 6.5 percent growth goal the White House set for 1984 will not be achieved, but he is sticking with the administration's projection of around 4 percent in 1985. The actual figure could be 3.8, he says.

At least one private sector forecast, from the Morgan Guaranty Trust Company, is in the same general range as the administration's. Morgan Guaranty sees an expansion rate of 3.7 percent.

The various business organizations and economists that differ on the 1985 growth rate also present a wide range of opinion on inflation trends, beyond their general agreement that inflation will be moderate.

Estimates of the 1985 increase in the consumer price index go from 3 to 4.7 percent.

The business economists' association comes in at the upper level, reporting its consensus forecast is for a 4.7 percent price increase. That is still modest by standards of the recent past.

At the Fed, Martin is inclined toward the 3 to 3.5 percent rate, and he notes, "We are in a disinflationary period." The Chamber's Rahn puts the expected inflation rate at 3.6 percent, while Chief Economist Robert Ortner of the U.S. Commerce Department expects 4 percent.

EXPECTATIONS OF MODEST price increases this year are generally based on a continuing flow of low-priced foreign imports made possible by the strength of the U.S. dollar, the drop in oil and other commodity prices, moderate wage increases and increasing productivity. The prospect of continued expansion—albeit at rates lower than those of the recovery's peak—and continued low inflation is the principal reason for economic optimism. But various economists and other experts also cite potential negative factors that should be taken into consideration in assessing the outlook for 1985.

One is the Federal Reserve's policy on money supply in the face of the current weakening. The Commerce Department's Ortner says any disappointment with the economy's performance this year should be laid directly at the Fed's doorstep.

Growth, he says, "is a question of monetary policy."

Rahn points out there has been little growth since last June in the basic money supply—cash and demand deposits—which is a key indicator of future economic activity.

He says that lack of growth contributed to the slowdown in last year's second half and resulted from the Fed's "misguided belief that rapid growth leads to inflation."

WHILE AVOIDING A direct confrontation with the central bank, the Reagan administration has kept dropping strong hints that it thinks the Fed has persisted too long in keeping an anti-inflationary lid on the money supply and should have eased up before the current downturn began.

Other potential clouds could emerge from the major policy debate about to begin over reduction of the federal deficit.

William Ford, president of San Francisco's First Nationwide savings and loan association, says, for example, that residential construction will enjoy a bullish year, "as long as we don't do something stupid like increasing taxes."

Business is aggressively pressing for budget cuts, not major tax increases, as the most effective way to sustain growth and reduce the deficit (see page 72).

One business worry on this point is that Congress will try to exploit public support for making the tax system fairer and simpler by enacting tax increases under the label of reform.

J. Peter Grace, who headed a presidential commission that identified potential budget savings of $424

Fed Vice Chairman Preston Martin is optimistic about inflation.

Richard Rahn, the Chamber's chief economist, sees solid growth this year.

The Fed caused slower growth, says Commerce economist Robert Ortner.

Business spokesman J. Peter Grace says tax reform must not lead to higher taxes.

billion over three years, is now leading a broad coalition of business and other organizations opposing higher taxes.

He argues that any attempt to increase taxes in the guise of tax reform would amount to "a congressional cop-out to avoid the hard political decisions that inevitably surround proposed spending cuts."

Another area that business is watching closely as the new year begins is the international trade arena—particularly the exchange rate of the dollar.

Because a strong dollar makes imports sold here cheaper and U.S. products sold abroad more expensive, it has been seen as a factor in the recent slowdown.

Walter Jolson, chief economist for General Electric Company, gives an example of the impact of the exchange rate on U.S. business. Since 1979, he says, the appreciation of the dollar against the German mark has meant a 60 percent increase in labor costs in U.S. manufacturing compared with those in Germany.

The U.S. Chamber forecast center sees relief in sight, however. It expects that consumer spending—though still high—will drop from last year's level and cut the rate of growth of imports to less than half what it was in 1984. At the same time, the center says, U.S. exports will grow a third faster than in 1984.

An easing of the trade deficit problem would constitute one of many factors making 1985 a year of slower but sustained growth after the softening of the past few months, most economists believe.

What about those who say the downturn has been a sharp reversal toward another recession?

NABE's Laden says the circumstances for a recession are just not present. There is no sign, he says, of the high inflation, inventory overhang and liquidity squeeze that preceded the last two major downturns.

As this new year begins, Laden adds, real income is growing, consumer buying sentiment is comparatively strong, and business investment is still good. Those are not, he says, the ingredients of a recession.

—Peter A. Holmes

A U.S. Chamber of Commerce Overview: Continuing Growth

(Percent change at seasonally adjusted annual rates unless otherwise noted)

	1983	1984*	1985	1986
Gross National Product				
Real GNP	3.7	6.8	4.4	5.1
Consumption	4.8	5.3	4.1	3.8
Residential investment	41.7	12.0	3.0	5.3
Business fixed investment	2.5	20.5	14.7	13.7
Equipment	7.3	22.3	15.6	14.7
Structures	−7.8	16.0	12.4	11.0
Exports	−5.6	5.5	7.8	10.2
Imports	7.6	30.7	13.4	6.3
Government purchases	−0.3	3.7	4.7	1.0
Inventory change (billions of dollars)	−13.5	61.0	47.4	56.0
New car sales (millions of units)	9.2	10.6	11.3	11.8
Housing starts (millions of units)	1.7	1.8	1.8	1.9
Profits from current production (billions of dollars)†	149.4	194.3	215.2	218.3
Employment, Wages and Prices				
Unemployment rate (percent for year)	9.6	7.5	7.0	6.4
Compensation	4.8	4.2	5.2	6.8
Productivity	3.4	2.9	2.4	2.5
Unit labor costs	1.3	1.3	2.7	4.1
Consumer prices	3.2	4.3	3.5	4.5
Prime interest rate (percent for year)	9.8	12.0	9.9	9.5

*Estimate

†Corporate profits after tax, adjusted for inventory valuation and capital consumption allowances.

Modeling and assumptions by U.S. Chamber of Commerce forecast center.

Big Players, Consolidation

COMPUTERS HAVE become the bright sun of American business, giving hope to many people that U.S. entrepreneurs will not succumb to imports but will instead continue their impressive rate of innovation.

However, a Big Blue shadow leads many top computer industry executives to predict that 1985 will be a year of consolidation. International Business Machines Corporation, long the dominant force in large and medium-sized computers, now sells about one of every three personal computers bought in the United States. And in 1984, by introducing its PC AT (for advanced technology), a powerful small computer capable of running several work stations, IBM gave notice that it expects to lead in technology as well as marketing. Only the biggest companies, say executives, will be able to compete with Big Blue.

PHOTO: IBM

PHOTO: KEN ROGERS—BLACK STAR

Edward Esber, president of Ashton-Tate, says software firms will emphasize sales to corporations, a change in distribution practices.

Electronics manufacturers are relying increasingly on plant automation, as in this installation of a robotic assembler in an IBM computer factory.

The stakes are large, indeed. Worldwide sales of semiconductor components are expected to total $30 billion to $32 billion in 1985, says Mark Norwood, manager of corporate market research for Intel Corporation—and more than 40 percent of semiconductor sales are for computer manufacturing.

Marc Butlein, a vice president of the Gartner Group, Inc., a Stamford, Conn., industry analyst, says the coming year will be marked by gradual movement—which may take a decade or longer—toward a business world in which combined computers and telephone systems are the products of a new information industry.

That industry, Butlein predicts, will be dominated by IBM; American Telephone & Telegraph Company; a few Japanese giants such as Nippon Electric Company, Fujitsu and Hitachi; and one other American firm from a group vying to become big players. International Telephone & Telegraph Corporation, General Electric Company and General Motors Corporation—which is already active in automated manufacturing and computer services and is, in addition, inserting an increasing number of microchips in automobiles—are all possibilities. A few other large American companies, such as Digital Equipment Corporation and Hewlett-Packard Company, say they will be in that top tier.

Other computer companies, from No. 2 personal computer manufacturer Apple Computer, Inc., to the most recent start-ups, are expected to face a choice: broaden the product base by acquisition or cooperative ventures, or develop an exclusive niche.

The focus of computing in most companies, says Butlein, is at the departmental level, because 60 percent of the information processed in a department never leaves there. The market for medium-sized computers used to serve departments continues to be significant because the average company faces 50 percent annual growth in computing demand—compared with an average 25 percent growth in computing power through technological advances. The result, Butlein says, is an increasing need for additional computers.

Because businesses need the highest possible integration of information, the information industry is moving toward an age in which desktop computers and a departmental computer can be linked to share information and to gain access to the still larger body of information in a corporate mainframe, says Winston Hindle, Jr., vice president for corporate operations at Digital Equipment Corporation, the world's second largest computer maker.

To sell to what Hindle calls the "white collar automation" market, DEC offers products that include a local area network for linking personal computers, a fast-selling line of medium-sized computers, and software packages aimed at solving specific needs of various kinds of small businesses.

DEC's fastest growth, Hindle predicts, will continue to be in its line of medium-sized VAX computers, which were largely responsible for the company's 31 percent one-year revenue growth to $5.6 billion in the fiscal year that ended last June 30. The computer industry should grow 15 to 20 percent in 1985, Hindle says, with DEC growing faster than the industry average.

IBM, a spokesman says, also expects a growth rate greater than that of the industry as a whole.

MANY PEOPLE IN THE computer industry believe that 1985 will be a year of change in the kind of software used on a lot of personal computers in businesses. Most personal computers now run software developed exclusively for them—the IBM personal computer, for instance, uses software based on a system developed by Microsoft Corporation. As businesses move toward integrating their computers, many of them

want to be able to use the same kinds of programs on personal computers as on department-sized computers, where the dominant operating system is Unix, developed 15 years ago by Bell Laboratories.

IBM positioned itself in 1984 for this change by announcing its support for Xenix, a Microsoft version of Unix to be used on IBM's PC AT. The IBM spokesman says the corporation expects sales of such software to rise during 1985.

Increased sales are also predicted at Hewlett-Packard: "We expect to grow at least as fast as in '84," when the percentage rate was in double digits, says Charles Jepson, marketing manager for the company's information systems group.

Jepson predicts that a number of computer manufacturers will merge in 1985 in the face of the rising cost of providing solutions to business automation needs. "Overall," Jepson adds, "we see the economy of the United States slowing," so that companies that faced financial difficulties in 1984 will do worse this year.

Because of the softening of the U.S. economy, international sales in 1985 are expected to account for more than the 50 percent of total Hewlett-Packard sales they represented in 1984, Jepson says.

Similar optimism about international sales is asserted by David Lee, president of ITT Information Systems. Lee says his company—which introduced its first personal computer in 1984—is trying to take advantage of its expertise in communications to gain a foothold in office automation, anticipating the day when voice and data information can be integrated in a single system.

"There are going to be fewer than 10 big competitors in the business of serving companies' information needs," Lee says, and he is determined to make ITT one of them.

The most successful manufacturer of IBM-compatible personal computers is Compaq Computer Corporation, which has sold 150,000 computers since entering the market in January, 1983. President Rod Canion says that 1985 "will be a challenging year," but that his company's growth will continue.

"The more sophisticated the machines have gotten, the more sophisticated the user has had to be," says Gary E. Liebl, president and chief executive of Microdata Corporation, a McDonnell Douglas Corporation subsidiary with $210 million in sales last year. As a result, Liebl's company, which sells personal and department-sized computers, is emphasizing development of software that allows secretaries and managers to use English commands to operate their computers.

"I think it's going to be a whizbang year," says Ed Juge, director of market planning for the Tandy Corporation. It has girded for the battle to automate offices by forming a business products division to direct its Radio Shack computer centers and telephone centers. Tandy, Juge says, should enjoy a double-digit percentage rise in sales this year—something it did not achieve in 1984.

IBM's new interest in selling software applications for personal computers will, Juge says, put added pressure on software companies, since many of them have products that run on only the IBM personal computer and some of the IBM compatibles. "Having all your eggs in one Big Blue basket is a mistake," Juge says.

THAT PRESSURE to avoid dependence on IBM can be a daunting one for software companies. Not only does IBM dominate business computers, but increased emphasis on marketing has made advertising campaigns for software products very expensive. Today three companies—Ashton-Tate Corporation, Lotus Development Corporation and Microsoft—dominate personal computer software.

Edward M. Esber, Jr., president and chief executive officer of Ashton-Tate, says that in the future the corporate market will be more important to software companies than sales of a few units to individuals or small businesses. He thinks the software market will change, as medium-sized and large companies begin to use local area networks to link desktop computers.

"Ultimately we will be selling to nodes on a network," Esber says. This move to large-account sales, he predicts, will force software companies to address their distribution systems, which now allow mail-order houses to sell software at sharply discounted prices.

When corporations begin to negotiate for a volume-discounted price, they will be able to start with the mail-order house's price rather than the higher suggested retail figure—and that will cut into software firms' profit margins.

Putting computers to use in manufacturing continues to be a high-growth area.

People may think of Xerox as a copier business, but one of its divisions, Xerox Computer Services, is a $100 million-a-year company in information systems, says the division's president, William Fello. He predicts 18 to 20 percent growth in 1985 as his company fights for a bigger share of the $3 billion-a-year market for software to operate computer-integrated manufacturing.

And the business of integrating robots into automated manufacturing will continue to boom, says Frank Romeo, executive vice president of Fared Robotics System, where growth of 25 to 30 percent is predicted for 1985.

Size will be a major factor in determining high technology firms' success in 1985, concludes Stephen P. Cohen, another Gartner Group vice president, with big firms enjoying the advantage. Production costs—and thus prices—for high-volume goods like personal computers can be kept low through the efficiencies of scale available to big companies.

Low-volume, technologically advanced products require large investments in research and development that only big firms can afford.

The result, Cohen says, is that 1985 will have "some very good winners," but also "a lot of losers."

—Mike Lewis

PHOTO: STEVE SMITH

Microdata President Gary Liebl says his company stresses development of software that allows people without extensive technical training to use English to operate computers.

Heeding the Customer

FOR BOTH BANKING and insurance, 1985 promises to be a year of gains based on increasing alertness to customers' needs.

Insurance companies no longer sell only insurance. Today, they help companies design safer workplaces and products, offer a variety of services from handling claims to administering self-insurance plans and employe savings programs, and create a wide assortment of new policies for unusual requirements.

"I've been in the insurance business for 30 years," says Robert Kilpatrick, chairman of CIGNA Corporation, "and I can honestly say that I've never been as excited about the business' potential as I am now. This year promises to be exciting for insurance customers and shareholders of well-run insurance firms."

From 1979 through 1984, the property/casualty sector lost more than $40 billion in its underwriting operations; its premium income—cut by rate reductions in commercial insurance—fell below what it had to pay in claims. Now insurers are fighting back through price hikes. Profitability is not just around the corner, but the industry should experience dramatic improvements in the next several years.

Employers can expect to pay more for workers' compensation insurance over the next 18 months, according to Kevin Ryan, president of the National Council on Compensation Insurance. The reasons: increases in benefit levels and medical costs, as well as broader definitions of occupational disease.

Annual sales of both universal life and variable life products are projected to increase 15 percent through 1986. And with life insurers re-emerging as major managers of pension funds, the money-management services they offer corporate pension fund clients will expand from the traditional stock, bond and real estate funds to include equity funds, international investments and private placement funds.

Will insurance companies go even further and get into banking in the future? Kilpatrick thinks "it's not healthy or desirable right now, since we haven't done so well in property/casualty." But he does foresee some future joint ventures between banks and insurers.

PHOTO: STEVE GOLDBLATT

CIGNA chief Robert Kilpatrick says this is an exciting time for insurers.

PHOTO: DOUG WILSON—BLACK STAR

American Bankers' head James Cairns: Banks' financial future is secure.

What about movement in the other direction, by banks into insurance underwriting?

"Banks should be kept out of the business of making lifetime promises," asserts John Carter, chairman and chief executive officer of Equitable Life Assurance Society.

NOT SO, SAYS Walter Wriston, former chairman and chief executive officer of Citicorp and Citibank, N.A.: "Two skills are needed for insurance—an understanding of risk and of the time value of money—both of which are basically part of a bank's business."

Whether Congress will permit banks to expand into insurance and securities remains the big question. The banking industry is still grappling with the effects of earlier deregulation measures.

But banks' financial future is now secure, says James Cairns, president of Peoples Bank in Seattle and of the American Bankers Association. "We have opened up more than the 68 banks we closed last year," he says. "That closing number represents only ½ of 1 percent of all the banks in the country. No other industry of any size has that small a percentage of failures. We're one of the strongest industries, if not the strongest, in the country."

This year, banks will offer corporate customers software packages that will give companies instantaneous access to financial information on their own operations, as well as general financial data like interest rates and economic forecasts. And many banks will sell computerized cash management programs, sending a corporate customer daily information on its cash position so it can use its cash as efficiently as possible.

Banks will continue to emphasize the retail customer, providing streamlined services and developing new deposit instruments. Automated teller machines may soon be as prevalent as telephones. Point-of-sale terminals, where retailers can debit the purchase price of an item from a customer's checking account, are becoming increasingly popular.

Electronic home banking is expected to explode this year. Nearly 35,000 American consumers now use such a service.

—Mary-Margaret Wantuck

Conservation, Moderating Prices

PHOTO: BRYCE FLYNN—PICTURE GROUP

PHOTO: PAT FIELD

Doug Bauer: Utilities will use more alternative fuels in 1985.

PHOTO: DAVID FITZGERALD

Oil prices are moving down, gas is in surplus. The coal association's James Randolph sees a slow coal year, too.

THE ENERGY industry is still adjusting to the market shock waves set off in the 1970s by oil shortages and price escalations.

Energy users responded with strong conservation measures. From 1970 through 1985, total U.S. energy consumption will have fallen 28 percent as a proportion of gross national product. The continuing drive by industry, the government and private citizens for conservation and energy efficiency has put strong downward pressure on prices.

In 1985, the U.S. Chamber of Commerce forecast section says, downward pressures on oil prices will continue, after a steady five-year decline in demand. Net oil imports, which rose 18 percent last year after hitting a 12-year low in 1983, should flatten out in 1985.

Gas deliveries, the Chamber forecast says, should rise only slightly, and a supply surplus will persist. U.S. coal consumption also will rise, but coal exports will suffer from a strong dollar and increased foreign competition. Electric power generation also will grow slightly, but newly commissioned nuclear plants will contribute to price rises of 10 percent and will add to industry overcapacity.

Paul Ziemer, president and CEO of the Wisconsin Public Service Corporation and chairman of the Edison Electric Institute, which represents the electric utilities, says inflation and high interest rates have been the largest factors in the past decade's substantial electricity price rises. But if the present low rate of inflation continues, he says, "I am quite optimistic that future rate increases will be moderate."

Ziemer says utilities will continue to press for simplification of the permit process for nuclear power generation, since permit delays raise costs. "There should be one hearing for both the construction and the operating permits," he says.

Doug Bauer, Edison Institute senior vice president, says the industry "is diversifying its fuel supplies, increasing its financial flexibility and developing and implementing advanced forecasting techniques and applying technological advances to its operations."

James G. Randolph, president of Kerr-McGee Corporation and head of the National Coal Association's economics committee, estimates that U.S. consumption of coal will grow 2.9 percent this year while coal production declines slightly. This seeming paradox is explained by decreased exports and by the stockpiling that took place in 1984, when a miners' strike appeared likely.

IN 1985, the major increase in coal consumption will come from the nation's largest coal user, the electric utilities, which will take 677 million tons, up 2.6 percent from 660 million last year. Industrial use, spurred by the use of coal to produce synthetic fuels, will grow 7.6 percent, from 79 million tons to 85 million.

During 1985, Randolph says, "consumers and producers will seek to bring coal production and consumption back into balance."

O.C. Davis, chairman of MidCon, a Chicago-based gas pipeline and distribution company and past chairman of the American Gas Association, says "the industry's supply picture is better now than it has been in many years." Because of this, he says, federal energy policymakers should rewrite outmoded restrictions in order to allow new industrial uses of natural gas.

The Independent Petroleum Association of America estimates that U.S. oil demand will average 15.9 million barrels daily this year, compared with 15.8 million last year. Gasoline consumption will remain flat, although more cars and trucks will travel more miles. In the last decade, fuel consumption per car has dropped from 763 gallons per year to 561 gallons and increasingly efficient cars are being built.

The U.S. Chamber forecast sums up by saying that "companies continue to restructure and streamline operations to adjust to long-term, critical changes in the marketplace. Energy conservation is probably the single most important factor affecting the financial fortunes of oil companies today."

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In Japan, where high-tech electronics are a way of life, they pay $714.93 for an American-made radar detector

(You can get the same one for considerably less)

Even we were a little surprised. All we did was build the best radar detector we knew how. We shipped our first ESCORT in 1978, and since then we've shipped over 600,000. Along the way the ESCORT has earned quite a reputation—among its owners, and also in several automotive magazines.

Credentials

Over the past five years, *Car and Driver* magazine has performed four radar detector comparison tests. Escort has been rated number one in each. Their most recent test concluded "**The Escort radar detector is clearly the leader in the field in value, customer service, and performance . . .**" We think that's quite an endorsement.

Our Responsibility

One of the reasons for our reputation is our attention to detail. If we don't feel we can do something very well, we simply won't do it. That's why we sell Escorts direct from the factory to you. Not only can we assure the quality of the ESCORT, but we can also make sure that the salesperson you speak to is knowledgeable. And if an ESCORT ever needs service, it will be done quickly. And it will be done right.

50 States Only

And that's the reason we don't presently sell ESCORTs outside of the United States. Even in the countries that use identical radar (Japan and Australia, to name two) we know that we couldn't provide the kind of customer service that ESCORT owners expect. So we pass up the additional sales rather than risk our reputation.

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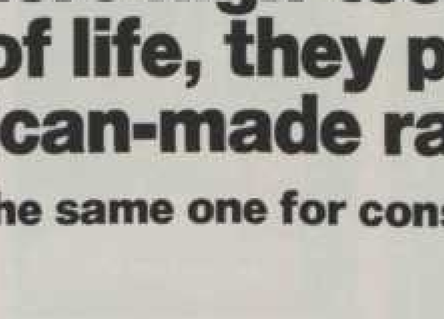

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Quite a deal for what the Japanese must think is the best radar detector in the world.

Try ESCORT at no risk

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Conservation, Moderating Prices

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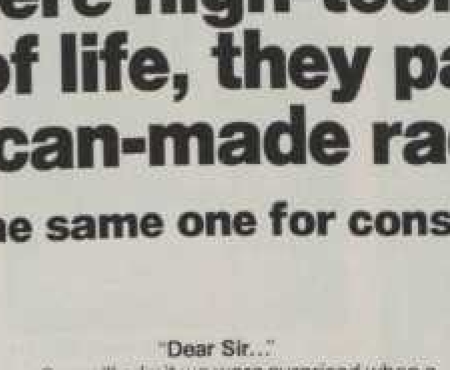

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A Year of Rapid Change

PHOTO: JOHN BLAUSTEIN—WOODFIN CAMP

The communications industry is relying more on fiber optics to handle a rise in demand.

PHOTO: AT&T

Robert Kavner, AT&T's chief financial officer, says his firm is changing its style.

FOR MANY of the nation's communications companies, 1985 will be marked by a feverish race into uncertainty. And as the year progresses, the pace of change will accelerate.

American Telephone & Telegraph Company's divestiture of local phone companies in 1984 will be followed in 1985 by "equal access." By the end of the year about 40 percent of telephone customers will be able, simply by dialing "1," to reach the long-distance carrier they have chosen. This will give AT&T's competitors—whose customers currently must dial 12 digits—the one-digit access now available only through AT&T.

Long-distance telephone service will be a $49 billion business in 1985, predicts Fritz Ringling, a vice president of the Gartner Group, a Stamford, Conn., analyst firm. Local telephone companies' revenues will reach $51 billion for the year, Ringling estimates.

Robert Kavner, AT&T's chief financial officer, concedes his company's 92 percent market share will decline. The industry giant expects to continue marketing quality of service, rather than price, but Kavner is confident that AT&T will also be "the low-cost producer," since the FCC requires AT&T's competitors to surrender their 55 percent advantage in access fees to local phone companies in exchange for the one-digit service.

The challenge of becoming an essentially unregulated company has changed AT&T's management style, Kavner says: "This isn't going to be a relaxed market leader that doesn't respect its competitors."

For MCI Communications Corporation—AT&T's biggest competitor for long-distance service, with 3 to 4 percent of the market—1985 is expected to bring rapid growth. Bert C. Roberts, president of MCI's telecommunications company, says MCI will triple its market share by the end of 1986. "MCI has been using this year as a learning curve," Roberts says, by studying trends in the handful of cities where equal access is now in effect.

The advantage that MCI and GTE Sprint (the third major competitor) have over AT&T is higher quality marketing, says Ringling. He says marketing problems account, in part, for the sharp drop in AT&T's domination of private branch exchanges—the switching equipment used in businesses. AT&T's market share is down to about 24 percent, from 60 percent only a couple of years ago.

Local operating telephone companies will continue to enjoy steady growth, says James V. Napier, president and chief executive officer of Continental Telecom, Inc., which has franchise phone companies in 36 states.

Napier expects 9 to 10 percent revenue growth during the year despite a slowing of the economy and, for non-Bell operating companies like his, an increased number of competitors, created by the breakup of the Bell system.

That competition is expected to extend to cellular phone service, which is becoming accessible to an increasing number of communities.

BUT SOME OF THE services hailed as wonderful new communications tools are not showing rapid growth. The two-way communication available through Warner Amex Cable Communications' Qube system has not revolutionized cable television. It has, however, given Warner Amex a base of 300,000 homes in five cities, from which it can obtain precise information about viewers' responses. Brenda Davidorf, director of Warner Amex Video Enterprises, says her company remains confident about the system.

Videotext, the display of written information on computer terminals or television screens, has long been regarded as an electronic version of the daily newspaper. Knight-Ridder Newspapers' Viewdata Corporation of America has operated a videotext service in south Florida for about a year. Its customer base has reached little more than half the 5,000 projected for late 1984.

Viewdata President Paul Orme says his service, which now requires a special terminal, must work equally well on the personal computer manufactured by International Business Machines Corporation before it can penetrate its market.

As personal computers become mass market consumer produts and home banking gains acceptance, Orme says, his service—which allows shopping and banking from home—will become increasingly popular.

—Mike Lewis

Section continues on page 61.

"What's in

Plenty. But we don't expect you to believe that until after you've taken a good, hard look at GMC's Customer-Proven concept.

The key thing to consider is that Customer-Proven GMC trucks are all built from Customer-Proven (CP) specs. Which means all the driveline combinations and chassis options that go into our CP trucks have already gone into thousands of other heavy-duty GMCs for specific vocational applications. In other words, the guesswork is gone: you can order a dump truck or cement mixer or line-hauler or whatever from your GMC truck dealer—and know that the specs package designated by the CP system for that truck's job is a winner. It will be an affordable package proven by many GMC truck operators before you, making their living the same way you do.

So, in a very real sense, your brand-new GMC Customer-Proven truck has millions of real-world miles on its combined componentry. You may never buy a truck with a higher potential for reliable, durable performance and low life-cycle cost. And since your GMC dealer has been computer-assisted in his CP specing, you may never get better order response. (CP units are often even available from dealer stock.) You'll also enjoy GMC's professional best in parts and service coverage.

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You'll exercise great freedom of choice when you scan the lengthy list of Customer-Proven options. This will allow you to stay within CP

it for me?"

specs, enjoy the many benefits of the Customer-Proven system, and still customize your GMC truck.

"What else is in it for me?" You're one tough customer. But we're ready for you. General Motors is also what's in it for you.

GMC Truck is a division of a corporation with some pretty impressive credentials. Like the General Motors Tech Center resources, wind tunnels, proving grounds and worldwide testing and research facilities.

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The popular Series 71 and Series 92 Detroit Diesel engines are both available in Customer-Proven GMC trucks. Detroit Diesels are available with a turbocharger and aftercooling system that work together to improve thermal efficiency and fuel economy.

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Bulls Paw at the Ground

By Ray Brady

"The Dow Jones Industrial Average will be at 1400 by midyear, and I'm willing to bet a martini on it."

WITH THE STOCK market in the doldrums most of this past year, flirting around the 1250 level on the Dow, how can Raymond F. DeVoe, Jr., distinguished economist for the Wall Street firm of Legg Mason Wood Walker, make such a rash prediction? After all, that huge federal deficit is still hanging over the stock market, and the economic recovery has continued to show signs of slowing.

Ray DeVoe and a lot of other Wall Streeters write an investment scenario that runs something like this: Business stays slow for the first quarter of this year, but the Reagan administration makes some progress on both taxes and the deficit and, with the slower economy, the Federal Reserve Board eases up on the money supply.

That helps interest rates to come down a bit—"1985 turns into a pretty good year," says DeVoe, "though not a barn burner"—and the lower rates also bring down the value of the dollar against other countries' currencies.

In turn, that could help prices in a group of stocks that many analysts have been watching, the big multinationals. Most of last year, their stock prices were pounded because the high-priced dollar was hurting their foreign earnings, even as it helped foreign competitors that were shipping products into this country.

One group of multinationals being watched especially closely for signs of better days in 1985: the drug and pharmaceutical issues, such as Schering-Plough, Squibb and Pfizer. (Schering-Plough, for example, counts on operations abroad for 30 percent of its profits.)

Another reason for the optimism: Many of the stock market's problems in 1984 were created by Wall Street itself. As Hildegarde Zagorski, investment strategist at Prudential Bache, puts it: "Security analysts last year were simply making earnings projections for companies that were beyond the realm of possibility. When those projected earnings did not come through, investors became dissatisfied, they sold—and you got a big, black hole in the price of many stocks. They dropped sharply."

Zagorski thinks that the analysts will be a bit more restrained in their projections this year and that investors therefore will not rush to dump stocks, sending prices plummeting.

Most firms are saying that selectivity may be the key to investment gains in 1985. Few would make any blanket recommendations (though many, it should be added, mention the beneficial effect a drop in the dollar could have on the drug stocks).

A WARNING NOTE: It has been this reporter's experience that times when the bulk of Wall Street gets to feeling optimistic are often times for the investor to keep a wary eye out. Efforts to solve problems the analysts are dismissing so blithely, such as taxes and the deficit, could lead to a long, knock-down-drag-out political fight in Washington.

Some analysts shrug off that view, pointing to clear-cut trends shaping up in energy, for example. Although it might be bad news for the oil companies, a drop in the price of oil would be good news for many other companies. Michael Metz, at Oppenheimer & Company, is watching the airline stocks for that reason. And for another.

"The airline industry," he notes, "has been going through a shakeout because of deregulation. You're seeing a lot of the weaker airlines going out of business. That could ease competition on some routes, and if you consider that the trend in oil prices seems to be definitely downward, that's another plus for this group."

PHOTO: ANDY LEVIN—BLACK STAR

Some airline stock prices may go up as deregulation forces weaker companies out of business, easing competition.

Other stocks Metz thinks could do better in 1985: the home builders and the aluminum companies.

The nation's big military buildup, Hildegarde Zagorski believes, could benefit some of the defense contractors. In particular, she singles out Northrop. "It's a fine company," she says. "Its per-share earnings have been hit by heavy research and development expenses for the Northrop F-20 fighter. But this program is beginning to shine through." So the Prudential Bache people believe that Northrop could fly high, indeed—with earnings rising at a 30 percent annual rate over the next few years.

What about those sometime investor favorites—the auto stocks? Many analysts note that the shares have had a big run-up in recent years and that the auto plants have been reaching their capacity limits in turning out cars.

"So how can they grow any more?" grouches one auto analyst. Ray DeVoe is more sanguine. According to his calculations, the average automobile chugging along the nation's roads now is 7¼ years old. "They are rustmobiles," says DeVoe. "If we have a bad winter, you are going to see a lot of owners pushing their vehicles—and they'll be hot to buy new ones."

Some Wall Streeters say two of their own kind might be promising performers in the new year: brokerage house stocks E.F. Hutton and Paine Webber. As they see it, both firms are about the right size to be gobbled up by an insurance company—something of a trend for Wall Street firms in recent years—and both are selling at a price just slightly over their book value, adding to their attraction.

RAY BRADY *is the business correspondent for CBS News.*

when I planned to

retire before fifty

this is the business that made it possible

a true story by John B. Haikey

Starting with borrowed money Duraclean gave me the opportunity for financial security... In eight years I sold out at a profit and retired.

"Not until I was forty did I make up my mind that I was going to retire before ten years had passed. I knew I couldn't do it on a salary, no matter how good. I knew I couldn't do it working for others. It was perfectly obvious to me that I had to start a business of my own. But that posed a problem. What kind of business? Most of my money was tied up. Temporarily I was broke. But, when I found the business I wanted I was able to start it for a small amount of borrowed money.

"To pyramid this investment into retirement in less than ten years seems like magic, but in my opinion any man in good health who has the same ambition and drive that motivated me, could achieve such a goal. Let me give you a little history.

"I finished high school at the age of 18 and got a job as a shipping clerk. My next job was butchering at a plant that processed boneless beef. Couldn't see much future there. Next, I got a job as a Greyhound Bus Driver. The money was good. The work was pleasant, but I couldn't see it as leading to retirement. Finally I took the plunge and went into business for myself.

"I managed to raise enough money with my savings to invest in a combination motel, restaurant, grocery, and service station. It didn't take long to get my eyes opened. In order to keep that business going my wife and I worked from dawn to dusk, 20 hours a day, seven days a week. Putting in all those hours didn't match my idea of independence and it gave me no time for my favorite sport—golf! Finally we both agreed that I should look for something else.

"I found it. Not right away. I investigated a lot of businesses offered as franchises. I felt that I wanted the guidance of an experienced company—wanted to have the benefit of the plans that had brought success to others, plus the benefit of running my own business under an established name that had national recognition.

"Most of the franchises offered were too costly for me. Temporarily all my capital was frozen in the motel. But I found that the Duraclean franchise offered what I had been looking for.

"I could choose from three dealership options. One starts as low as $3,900 down. Full cash investments range from $9,800 to $19,800. Financing is available for those who qualify.

"I could work it as a one-man business to start, and operate from my home. No office or shop or other overhead, no salaries to pay. Equipment would fit in my car trunk. (I bought the truck later, out of profits.) Best of all, there was no ceiling on my earnings. I could build a business as big as my ambition and energy dictated. I could put on as many men as I needed to cover my volume. And I could build little by little, or as fast as I wished.

"So, I started. I took the wonderful training furnished by the company. When I was ready I followed the simple plan outlined in the training. During the first period I did all the service work myself. By doing it myself, I could make much more per hour than I had ever made on a salary. Later, I would hire men, train them, pay them well, and still make an hourly profit on their time that made my idea of retirement possible—I had joined the country club and now I could play golf whenever I wished.

"What is this wonderful business? It's Duraclean. And, what is Duraclean? It's an improved, space-age process for cleaning upholstered furniture, rugs and tacked down carpets. It not only cleans but enlivens and sparkles up the colors. It does not wear down the fiber or drive part of the dirt into the base of the rug as machine scrubbing does. Instead it *lifts out* the dirt with absorbent dry foam.

"Furniture dealers and department stores refer their customers to the Duraclean Specialist. Insurance men say Duraclean can save them money on fire claims. Hotels, motels, specialty shops and big stores make annual contracts for keeping carpets and furniture clean.

"Well, that's the business I was able to start with such a small investment. That's the business I built up over a period of eight years. And, that's the business I sold out at a substantial profit before I was fifty."

Would you like to have the freedom and independence enjoyed by Mr. Haikey? You can. Let us send you the facts. Mail the coupon, and you'll receive all the details, absolutely without obligation. No salesman will ever call on you. When you receive our illustrated booklet, you'll learn how we show you STEP BY STEP how to get customers; and how to have your customers get you more customers from their recommendations.

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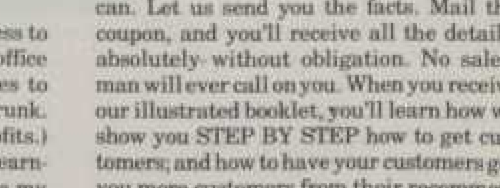

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Move Into the Slow Lane

Cutting your speed can improve your work . . . and save your life.

By Diana Diamond

DO YOU SCHEDULE more and more activities into less and less time? Do you really believe that if you want something done well, you have to do it yourself? Are you frequently irritable, angry and impatient?

Do you have a hard time sitting and doing nothing? Do you become unduly irritated when you have to stand in line at a bank or store, or when a traffic light takes too long to turn green? Do you always drive in the fast lane?

Do you play nearly every game to win, even against children? Do you interrupt others, hurry their speech or finish their sentences for them? Do you sit on the edge of your chair, as if poised for takeoff? Do you talk on the phone at the same time that you are reading a report?

The impatient, hard-driving Type A personality plays to win, even when his opponents are children.

People with Type A personalities will answer yes to most of these questions. And according to a six-year study by San Francisco physician Meyer Friedman and Stanford University Professor Carl Thoresen, Type A individuals are more inclined to heart attacks than their relaxed, self-confident, easygoing Type B counterparts.

The study has also found that behavioral changes can reduce the risk of heart attacks for Type A people by as much as 50 percent.

Although only 25 percent of chief executive officers are Type A, Friedman says, a large percentage of people in middle and upper management manifest Type A qualities.

A theme of struggling with life emerges in Type A people—a time-urgent, "I've got to do it fast" approach. They frequently are hostile, suspicious, cynical and hypercritical, finding fault with people and situations. But they also may be sensitive to criticism from others, Thoresen says.

Likable people? Some are, says Thoresen, because they are interesting and alive. But some can be obnoxious. "If they took off the rough edges, they could increase their chances for close friendships, which could be excellent for longer lives," he says.

Says Friedman: "Anger, impatience and suspiciousness have wrecked many a career."

What really seems to underlie Type A behavior is a sense of insecurity. As youngsters, Type As seldom were made to feel that they really were good. "There probably was always an undertone of 'you could have done better,'" Thoresen says.

FRIEDMAN LISTS a number of symptoms that may indicate a Type A person needs help: migraine headaches; high blood pressure; unexplained hostility toward peers, supervisors and subordinates; excessive smoking. The symptoms all indicate a great deal of tension, which can trigger a heart attack—especially if there is a hereditary pattern of coronary disease.

In their study, Friedman says, "we were not trying to change a personality. But we were trying to influence behavior and develop a more trusting, more caring individual, with a less hypercompetitive attitude toward life."

Participants—all Type A—ranged from executives to taxi drivers; each had had a heart attack. They were divided into two groups: 270 patients who received only cardiological advice (about diet, exercise, cardiovascular medications and physiology) and 592 who got the cardiological advice plus behavioral counseling. After three years, only 9 percent of the patients who received behavioral counseling had new heart attacks, compared with 19 percent of those who received only the cardiological advice.

What made the difference? The counseling was aimed at helping the participants stay alive, reduce the intensity of the Type A pattern and improve the quality of their lives.

They were told to pace themselves differently, in small ways at first, because small things can turn out to be big parts of one's life.

They were encouraged to drive in the slow lane instead of the fast, to stop at a traffic light when it turns yellow, to sit at the dinner table for a longer period of time, to stand in longer rather than shorter lines, to speak more slowly and to smile more at strangers. They were asked not to wear their watches for a day and then for a week.

"Their initial fear was that they would turn into sloths, but we kept assuring them that these procedures were fine ways to reduce their often breakneck speed," Thoresen says.

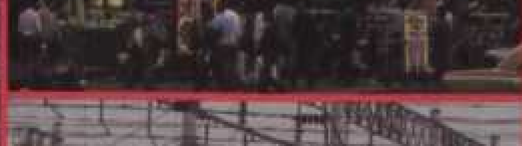
They were shown that when people slow down, they got more done. "You can get away with a frantic pace for a while, but after a time, the quality of work diminishes," says Thoresen. "With a slower pace, it is enhanced."

The Type As had to learn to say no when asked to take on unwanted responsibility. They also had to learn not to schedule every minute of every day and not to create unnecessary deadlines for themselves. They were told to be realistic about how long it would take to do a given assignment, and then to say it would take even more time. They were encouraged to save their anger for situations that really counted.

A number of physicians are still skeptical, but Friedman declares that beyond a shadow of a doubt, the Type A personality can be treated effectively: "Reduction or elimination of Type A behavior can reduce the incidence of second heart attacks radically."

DIANA DIAMOND *is a free-lance writer based in Palo Alto, Calif.*

J A P A N



JAPAN

Commitment to A Free Trade System

JAPANESE-U.S. relations today have become the most important bilateral ties in the world. Two-way flow of goods, services and money between the two Pacific countries is close to an annual volume of $100 billion. Japan is America's second largest trading partner, after Canada. For Japan, the United States is the No. 1 trading partner. The combined gross national product of Japan and the United States accounts for about one third of the world's total output.

Economically, their relationship has evolved from one-sided dependence to interdependence. Politically, they are bound by the common values of freedom and democracy.

The political climate of Japanese-U.S. relations has been basically upbeat, as exemplified by the successful exchange of visits by Prime Minister Yasuhiro Nakasone (who visited the United States in January, 1983) and President Ronald Reagan (who visited Japan that November). They are going to meet again this month in California.

On the other hand, economic friction has intensified.

The following is Keidanren's view of major Japanese-U.S. economic issues experienced in the past as well as the outlook for development in the future.

Bolstering The Free Trade System

The trade imbalance between Japan and the United States is often blamed on the perception that the Japanese market is closed. The fact is that it is not closed at all. Import tariffs in Japan have been lowered now to an average of 3 percent, compared with 4 percent for the United States and 5 percent for Western Europe. Several packages of market-opening measures announced since 1982 have brought about considerable improvement in nontariff barriers, too.

This article was prepared by Keidanren (Japanese Federation of Economic Organizations), a private, nonprofit economic organization representing virtually all economic activities in Japan.

PHOTO: TOKYO BANK

Agriculture trade has become the symbol of the closed market in Japan. In recent years the trend has been toward sustained expansion in Japanese agricultural imports.

Farm imports from the United States reached $7 billion in 1983, making Japan the world's largest net importer of agricultural products.

Also, the Japanese share of overall U.S. trade deficits has been diminishing year after year. From half of the U.S. global trade imbalance in 1982, it decreased to one third in 1983 and to one fourth in 1984. The recent increase in U.S. trade deficits comes mostly from a slump in U.S. exports to European and developing nations.

Keidanren is committed to preserving and strengthening free trade.

It is from this fundamental belief that Keidanren has consistently called on the government and people of Japan to do more toward completely opening up the Japanese market. To this end, Keidanren has advocated a new round of negotiations on the General Agreement on Tariffs and Trade. It has also proposed that Japan lower tariffs that are still too high. And it has advised the government to abolish import tariffs altogether on the same machinery and equipment items that are being heavily exported by Japanese producers.

As for beef, oranges and other farm products under residual import restrictions, Keidanren takes the position that these restrictions should be liberalized within a time schedule. Advocating farm trade decontrol entailed some sacrifice on Keidanren's part. Its headquarters for a time became the scene of daily demonstrations. It was flooded with thousands of protest letters. Some member corporations supporting import liberalization have had their products boycotted by farm organizations.

Japan and the United States reached a provisional agreement in 1984 that expanded quotas for beef and orange imports. Keidanren believes that Japan must strive even harder to attain the ultimate goal of complete liberalization, while expanding the quotas. Strong resistance to liberalizing beef and orange imports comes partly from fears that the United States will demand import liberalization of rice, the staple grain in Japan.

The fears extend from agricultural organizations to the general public. They

PHOTO: PAUL CHESLEY—ASPEN

A tribute to Japan's resurgence as a great economic power is Tokyo, the nation's vibrant capital.

Japan's importance in international financial circles is reflected in the busy dealing room of the Bank of Tokyo.

High-level Keidanren delegations visit the United States to promote economic cooperation. Seiki Tozaki (left), chairman of C. Itoh & Company, Ltd., and Akio Morita (third from left), chairman of the Sony Corporation, talk with President Reagan.

PHOTO: THE WHITE HOUSE

are based on the Japanese memory of the soybean embargo imposed by President Richard Nixon in 1971.

Keidanren has tried to improve licensing, inspection, certification and other trade-related procedures, through consultation with the government and ruling Liberal Democratic Party.

The exaggerated notion of a closed Japanese market often originates with the experience of individual American businesses that have run up against the regulatory wall in an attempt to sell in the Japanese market. The licensing, inspection and certification procedures have been devised not to obstruct imports but to protect the health and safety of Japanese consumers. There are instances, however, where such regulations are excessive or out of date and interfere with efficient trade. Pressing for extensive deregulation in foreign trade is extremely important to improving the Japanese market's image abroad.

The liberalization and internationalization of the Japanese financial and capital markets has been a focal issue between Japan and the United States in recent months. Controversy began when American participants in the Japan-U.S. Businessmen's Conference of July, 1982, charged that the Japanese government engaged in manipulating the yen-dollar exchange rate in order to expand Japanese exports. Depreciation of the yen increases the cost of yen-denominated imports, thereby generating pressure for higher prices in Japan. A cheaper yen also leads to a deterioration in corporate earnings, because businesses operating in a less than buoyant market find it hard to pass on the additional import cost in prices.

Contrary to American accusations, the Japanese government during the period in question intervened in the foreign exchange market to blunt the pace of dollar appreciation. It also stepped into the short-term fund market in an attempt to keep short-term interest rates at a relatively high level and prevent any steep decline in the yen rate. Although it took considerable time to remove the widespread misunderstanding about exchange rate manipulation in Japan, the U.S. government came around to a more realistic view of the foreign exchange rate issue. Later, the notion of a deliberately undervalued yen gradually faded among American business leaders.

But the undervalued yen controversy was soon followed by a new kind of argument among U.S. official and business circles. This view holds that even if the Japanese government does not engage in exchange rate manipulation, the closed Japanese credit and capital markets are responsible for keeping the yen cheap relative to the dollar.

In reply, Keidanren pointed out that not just the Japanese yen but most major currencies have depreciated against the U.S. dollar. The problem is not yen depreciation but the dollar's appreciation. As to why the dollar remained strong, Keidanren cited high U.S. interest rates and strong preference for the dollar as a shelter currency in a turbulent world. Keidanren took the position that going ahead with financial reforms is an obligation for Japan as a world economic power. Specifically, it proposed reforms such as liberalization of interest rates, complete liberalization of foreign investment in Japan's economy and greater flexibility in the issuance of yen-denominated foreign bonds.

Subsequently, consultations started in a joint committee of senior representatives of the Japanese Finance Ministry and the U.S. Treasury Department over the questions of the yen-dollar exchange rate and credit and financial markets. The committee last May issued a joint report which, with other developments in Japan and abroad, signals the beginning of an era of liberalization and internationalization of the credit and capital markets in Japan. Freer flow of capital will encourage further Japanese investments in the United States.

Japan and the United States must adhere to the GATT's basic principles of freedom, multilateralism and nondiscrimination. It follows that the two great economic powers should refrain from quickly resorting to restrictive arrangements like voluntary export restraints. There are times, however, when an abrupt increase in imports of particular products threatens to seriously harm major industries of the importing country. In such a contingency, it might become necessary

for the countries to agree on voluntary export restraints as an exceptional and temporary measure. This would prevent politicizing and aggravating the problem. There is danger, however, that once such a measure is put into place, it will be difficult to remove. It is important that the concerned parties clearly limit in advance the length of time such a measure will remain in force. Both countries concerned must report to GATT about the arrangement as well as progress in adjustment efforts.

Take the voluntary restraint on automobile exports. Following the two energy crises of the 1970s, U.S. demand for large cars dropped drastically, while that for smaller cars expanded rapidly. Having concentrated for many years on producing large automobiles, U.S. manufacturers were unable to adjust quickly to the changed pattern of demand. Japanese small cars were welcomed by consumers and sold well. Strong pressure was then brought to bear on the Japanese government to force Japanese auto producers to accept a voluntary limitation on their car exports to the United States until American automakers could develop a smaller car production system. That period was set for three years beginning in 1981. In reality, however, the arrangement was extended into a fourth year. And even as U.S. car demand has now recovered and U.S. carmakers' financial performance has vastly improved, American leaders are talking about a fifth year.

At the same time, the reduced supply of Japanese-made cars pushed up U.S. auto prices between 10 and 20 percent and caused a shortage of dealer stocks of small cars. While the cutback on Japanese car imports continues, U.S. auto companies are planning joint ventures with Korean auto manufacturers and giving them technical help. Half of the autos produced are to be sold in the Unted States. In Keidanren's view, there is no justification for further extending the voluntary restraint on car exports to the United States.

One example of Japanese investment abroad is this Nissan factory in Tennessee, where U.S. workers use proven Japanese production methods.

Promoting Industrial Cooperation

Keidanren proposes that discussions should be held between Japanese and U.S. industrial sectors to identify problems and work out possible solutions before the governments of the two countries intervene to arrange ultimate measures. Such consultations already have been held in the case of the electronics and paper-pulp industries, contributing to better understanding.

In connection with the recently proposed voluntary restraint on steel imports, there is a feeling in Japan that representatives of the Japanese and U.S. steel industries ought to have discussed the problem more thoroughly at an earlier date. Keidanren hopes to hold intersectoral consultations more frequently in the future. For this to happen, however, the governments of the two countries should help create better conditions. Keidanren particularly hopes that the United States will relax the rigid enforcement of antitrust laws, which poses a serious obstacle to promotion of dialogues between industries.

Keidanren vigorously supports business cooperation between Japan and the United States. At the same time, it strives to remove barriers, such as the worldwide unitary tax, against direct Japanese investment in the United States.

Such investment exceeded $16.5 billion by the end of March, 1984, and included 10,846 projects. This accounts for 27 percent of Japanese investment overseas, compared with 24 percent at the end of 1980. About 70 percent of Japanese investment in the United States is concentrated in service areas, while the remaining 30 percent goes to manufacturing. This contrasts with the pattern of investment by U.S. and European businesses, which is tilted to the manufacturing industries.

In recent years, the percentage of Japanese investment in U.S. and European manufacturing has turned upward, especially in such industries as automobiles, electric appliances, semiconductors, machine tools and other machinery and food products. This trend is expected to become further pronounced in the coming year. The growth of direct Japanese investment in manufacturing is expected to contribute significantly to the expansion of employment and industrial development in the United States.

A survey last February of the member corporations of Keidanren found that 175 were studying expansion of existing locally based operations in the United States or initiating investment there. Motives cited included expansion of sales outlets, access to raw materials and other supplies, and substituting local production for finished exports from Japan. This alleviates trade friction. More than 8 out of 10 respondents said they are satisfied with results of their investment in the United States.

Keidanren last year sent two high-level groups to the United States, the first in February and the second in June, to study the investment climate in individ-

More About Keidanren

Keidanren, maintaining close contact with both public and private sectors at home and abroad, endeavors not only to find practical solutions to economic problems but also to contribute to the sound development of the economies of Japan and countries around the world. Keidanren had 117 association members and 839 corporate members as of August, 1984. Address: 9-4, Otemachi 1-chome, Chiyoda-ku, Tokyo 100, Japan. Phone: (03) 279-1411; Telex: 222-3188 KDRTOK J.

VAN OF A THOUSAND FACES

The versatile 1985 Toyota Cargo Van combines compact size with spacious interior capacity. Nimble around town, it also has the room and payload to handle the most diverse cargo requirements of today's on-the-go businesses.

The Cargo Van's responsive 2.0 liter engine with Electronic Fuel Injection delivers brisk performance. And Cargo Van is designed to keep maintenance to a minimum. Spark plugs are made for 60,000-mile life, and automatically adjusting hydraulic valve lifters help reduce wear.

Check the charts below for all the details on the unique versatile Toyota Cargo Van.

And for further information on this van of a thousand faces, contact Toyota's National Fleet headquarters today at (213) 618-4972.

FEATURES

S—Standard O—Optional	Cargo Van
MECHANICAL	
2.0 liter 4-cylinder engine	S
Electronic Fuel Injection	S
Fully transistorized ignition	S
5-speed overdrive transmission	S
4-speed automatic overdrive transmission with lock-up torque converter	O
Double wishbone upper torsion bar front suspension with gas-filled shock absorbers	S
4-link/coil spring rear suspension with gas-filled shock absorbers	S
Power-assisted brakes (ventilated front disc/rear drum with rear load-sensing proportioning valve)	S
Galvannealed steel in key body areas	S
EXTERIOR	
Styled steel wheels	S
Steel-belted radial tires	S
Urethane front and rear bumpers	S
Front mud guards	S
Dual outside mirrors	S
Rear window wiper/washer with fluid level indicator and electric rear window defogger	O
Sliding passenger-side door with child protector door lock	S
High overhead opening rear hatch	S
Sliding tinted side glass window	S
INTERIOR	
Fuel, oil level and coolant temperature gauges	S
Resettable tripmeter	S
Power steering/tilt steering wheel	O
Cruise Control—includes adjustable intermittent windshield wipers	O
Dual air conditioning with front/rear controls	O
Single air conditioning	O
Cooler/Ice Maker	O†
Steering column-mounted headlight, headlight flasher, intermittent vented anti-lift windshield wipers/washer, and turn signal controls	S
Dual power-boosted Flo-thru ventilation with front/rear controls	S
Rear compartment heater with separate controls	S
Tinted glass	S
Locking fuel filler door	S
Analog quartz clock	S
Padded instrument panel	S
Reclining front bucket seats	S
Center console with storage areas	S
Full carpeting including rear cargo area	S
AM/FM/MPX stereo receiver with 2 speakers and cassette	O
Garageable fold-down type radio antenna	S
Converter Package—includes power steering, power windows, centrally controlled power door locks, tilt steering wheel, Cruise Control, door courtesy lamps, electric rear window defogger, rear window wiper/washer, adjustable intermittent front wipers, footrest, bronze tinted glass and heavy-duty heater	O

†Available with dual air conditioning only

SPECIFICATIONS

ENGINE TYPE	4-cylinder EFI
DISPLACEMENT	2.0 liters (1998 cc)
HORSEPOWER (SAE NET)	90 @ 4400 rpm
TORQUE (SAE NET)	120 ft-lbs. @ 3000 rpm
BODY/FRAME CONSTRUCTION	Unitized body
SUSPENSION FRONT	Double wishbone with upper torsion bar, gas-filled shock absorbers and stabilizer bar
SUSPENSION REAR	4-link with coil springs, gas-filled shock absorbers and stabilizer bar
STEERING TYPE	Recirculating ball
TURNING CIRCLE DIAMETER	30.2 ft.
BRAKES	Power-assisted (ventilated front disc/rear drum with rear load-sensing proportioning valve)

EXTERIOR DIMENSIONS (inches)

Wheelbase	88.0	Overall height		70.1
Overall length	175.4	Tread width	(front)	56.1
Overall width	65.7		(rear)	54.3

INTERIOR DIMENSIONS (inches)

Head room	40.2	Cargo width (at floor)	42.0
Leg room	41.5	Cargo height	49.3
Shoulder room	56.1	Cargo length (at beltline)	92.7

CAPACITIES

Cargo capacity (cu. ft.)	149.8
Payload capacity (lbs.)†	1680 (5-speed overdrive) 1660 (4-speed automatic)
Fuel tank capacity (gallons)	15.9
CURB WEIGHT (lbs.)	2820 (5-speed overdrive)/2840 (4-speed automatic)
GROSS VEHICLE WEIGHT RATING (lbs.)	4500

TIRES

Type	Steel-belted radial blackwall
Size	P185/75R14

EXTERIOR COLORS (INTERIOR COLOR—Beige/Wine)

White Silver Metallic (Clear Coat)
Red Beige Metallic (Clear Coat)

†Including occupants, equipment and cargo.

MILEAGE ESTIMATES*

	5-speed Overdrive	4-speed Automatic
CITY MPG/HWY MPG	21/25	21/23

*Remember: Compare mileage estimate to the "EPA Estimated MPG" of other cars. You may get different mileage depending on how fast you drive, weather conditions and trip length.

Specifications and equipment based on information available at time of printing and are subject to change without notice.

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OH WHAT A FEELING!
TOYOTA

ual states and to seek improvement of the worldwide unitary taxation that by now constitutes the single biggest barrier to direct foreign investment. Participants in the Keidanren missions concluded that the United States has the world's best investment climate and were impressed by various favorable conditions in different regions and states. They noted that state governments, universities, research organizations and private businesses work closely together in pushing ahead with R&D activities for the growth of high technology industries and the training of manpower capable of sustaining future industrial development.

The Keidanren groups felt there was much for Japan to learn from such cooperation. In planning for new investment or expansion of existing facilities, Japanese corporations in the future probably will be looking throughout America for states offering the best investment environment.

The unitary tax, a formula for assessing corporate tax on worldwide income, remains in force in California and about a dozen other states. Under this formula, tax is assessed not just on the income reported by the corporation operating in a particular state but on the incomes of parent and affiliated companies abroad. Part of such total income is then apportioned to that corporation. This practice runs counter to internationally recognized principles of accounting, gives rise to double taxation and entails a heavy load in paper work. Worldwide unitary taxation thus poses a serious investment barrier.

On the federal level, a review of the unitary problem has been conducted by a working group chaired by Treasury Secretary Donald Regan. Established at the instruction of President Reagan, the panel consisted of representatives of the federal and state governments and multinational corporations.

The group, in a final report submitted last summer to President Reagan, supported limiting the scope of unitary tax application to U.S. shores. Devising a specific solution to the unitary problem, however, was left to each state with a unitary tax. The two Keidanren missions sent to the United States strongly appealed to President Reagan and state governors for an early abolition of the worldwide unitary taxation. In California, the prime target of the anti-unitary tax campaign, many Japanese companies conducted lobbying activities. As a result of these efforts, there have been signs of improvement in the unitary tax situation.

External debts in the developing world swelled to an accumulated total of $660 billion or more at the end of 1984. If the less developed countries' debt problem is mishandled, the world economy could be thrown into chaos. Cooperation among lender countries is essential.

The Japanese government has pledged, both at home and internationally, that it will double the level of official development assistance in the first half of the 1980s over that for the second half of the last decade ($10.7 billion). The government is living up to that declared goal. Keidanren firmly supports the government's decision.

A strong initiative by the United States, as the world's largest donor country, toward sustaining economic development in the Third World is needed. Driven by debt pressure, Latin American countries have been compelled to cut back on their imports. This has boomeranged against U.S. exports to the region, swelling the U.S. trade deficit.

Keidanren has stressed that Japan's government should expand export credit and export insurance. Keidanren has bilateral standing committees with countries such as Thailand and Brazil and holds annual meetings with government officials and businessmen. Yoshihiro Inayama, chairman of Keidanren, will lead a mission this month to the Association of Southeast Asian Nations to promote economic exchanges.

Friction Over Industrial Policy

Economic friction between Japan and the United States grew increasingly acute beginning in the late 1960s. This was particularly true in the areas of textiles, steel, color television sets and automobiles.

In recent years American critics have argued that Japan has been applying an unfair policy of industrial targeting of one or another sector, by offering subsidies and protection against imports. The critics maintained that the United States should take protective trade measures to counteract this so-called industrial policy.

Keidanren believes such complaints now are based on outdated assumptions. Policies have changed as Japan has changed and has liberalized trade and capital transactions.

The industrial policy controversy was the subject of a joint study by a task force of the Japan-U.S. Businessmen's Conference. The study concluded that subsidizing private research and development activities is a common practice, found in most countries. Particularly when R&D projects require many years of gestation and massive investment, government often plays a major role.

The government's share of total national outlays on R&D in Japan is far smaller than in the United States.

Admittedly, U.S. government assistance to private R&D shows marked concentration in defense-related areas. It is clear, nonetheless, that U.S. private industry at large enjoys an incalculable benefit from technological spinoffs generated by defense R&D contracts. Government assistance to the development of the supercomputer is a case in point.

The study also noted that the two oil crises of the 1970s triggered a large increase in energy costs and in the prices of imported raw materials generally. This, in turn, led to a sharp increase in the inflow of competing products, to idle capacity and to a marked deterioration of earnings in a number of Japanese industries. Industries that are structurally in trouble include aluminum smelting, petrochemicals, electrolytic furnaces and chemical fibers.

In Japan, the government has readied

Government Share In R&D Expenditure

(Trillion yens)

	Japan	U.S.
Total R&D Outlays	6.5	19.3
Of which, gov't outlays	1.7	9.0
Gov't nondefense outlays	1.6	4.5
Percent share of gov't outlays	26%	47%
Percent share of gov't nondefense outlays	25%	30%

Corporate Income Tax Rates

(Percent)

	Japan		U.S.	W. Germany	U.K.	France
	(1984)	(1983)	(1985)	(1984)	(1982)	(1980)
Statutory rate	52.92	51.55	51.18	56.52	52.00	50.00
Real rate	51.57	50.50	32.28	49.84	18.06	45.70

a structural adjustment policy to facilitate change in problem sectors. The policy allows businesses to collaborate to scrap excess capacity.

Also, Japan's adjustment policies provide no protection at the water's edge against imports and foreign investment. In many instances, therefore, imports have increased rapidly, often frustrating the attempt by domestic producers to keep their output at a given level.

U.S. taxation policies have a great bearing, directly or indirectly, on industrial development, the study further concluded. At present, extensive tax incentives are offered to stimulate investment. Particularly important is the accelerated cost recovery system, whose tax benefit is estimated at $24 billion for fiscal 1985. Another potent source of tax relief for U.S. businesses is the investment tax credit. This measure resulted in a tax reduction of $26.5 billion in fiscal 1982. The U.S. government also offers a variety of tax incentives for new ventures, research and experiment and export.

As a result, the real rate of tax burden on U.S. business has become much lower than the statutory rate. In the absence of comparable tax incentives for business in Japan, the real rate of tax burden on corporations has become the heaviest among major industrialized countries. The statutory rate of corporate income tax is 52.92 percent, which compares with 51.18 percent in the United States. But the real rate of tax burden, adjusted for tax incentives, is 50.30 percent in Japan as against 32.28 percent in the United States.

In the belief that private enterprise is the engine of economic revitalization, Keidanren is appealing for tax incentives to help business fully demonstrate its vitality in Japan.

When trade friction intensifies to the point of hurting Japanese-U.S. economic relations, business suffers. In Japan, movements for reduction of complicated government regulations in the past few years have been led by Toshio Doko, 88-year-old former chairman of Keidanren. The change in policymakers that takes place quadrennially in Washington tends to create a problem with continuity of policy. One of the most promising avenues of action is to step up dialogues between representatives of individual Japanese and U.S. industries facing problems of common interest.

Keidanren, to repeat, is committed to maintaining and strengthening the market economic and free trade system. It will keep up its efforts to develop a better understanding of Japan among its trading partners, to open the Japanese market still wider and to promote industrial cooperation. ◻

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Overcoming Trade Friction

IT IS NOT EASY to find definite solutions for bilateral trade frictions between Japan and the United States. Frictions or problems of various kinds will naturally arise whenever international trade is carried out. But all of us, whether in government, private industry, or at the individual level, should make every effort to ease frictions to assure the expansion of worldwide free trade, as well as understanding of and mutual respect for each partner's situation.

As a private corporation actively developing many areas of high technology, Toshiba is involved in a variety of corporate efforts to help alleviate Japan-U.S. trade frictions through such measures as direct investment in the United States and technical cooperation with American concerns.

Shoichi Saba, President
Toshiba Corporation

On the subject of direct investment in the United States, the company established Toshiba America, Inc., in April, 1965, to focus on the sale of consumer and electronic products, as well as on the manufacture of color television sets and microwave ovens at plants in Lebanon, Tenn. The plant complex, with its 500 employes, has an annual output of 500,000 color TV sets and 400,000 microwave ovens.

In the field of semiconductors, Toshiba established Toshiba Semiconductor (USA), Inc., in 1980 in Sunnyvale, Calif. It manufactures advanced memories and microcomputers and was Japan's first manufacturer to handle the entire production process from wafer processing to assembly of devices.

An investment has also been made in the United States for the production of heavy electrical apparatus. Toshiba International Corporation in San Francisco has a manufacturing division in Houston to assemble standard-size motors and control units.

Toshiba has been employing about 2,000 local staff members in the United States. Further, it has invested more than $100 million in plants and facilities. The company is examining the possibility of making additional investments in existing and new fields.

Direct manufacturing investment not only creates jobs and transfers technology and management know-how but also contributes to mutual economic development.

Toshiba is also very active in technological exchange with U.S. concerns in a range of high tech fields. As for the semiconductor field, Toshiba offers low power consumption C-MOS device technology to U.S. firms and, in exchange, receives advanced U.S. technology on gate arrays and microprocessors.

Toshiba can also cite a new CATV system that the company has been successful in jointly developing with American Television and Communications. The system is noteworthy because it features both pay-per-view and two-way addressability functions. It will be marketed by the Denver-based joint venture that Toshiba and ATC have established.

Toshiba has also been engaged in joint research on medical electronics technology with the University of Arizona. Specifically, this has focused on a total digital imaging system, which has digitalized various diagnostic data for computer processing and has improved both the speed and accuracy of doctors' diagnoses.

In addition, in the field of nuclear power, the company has been jointly developing with General Electric an advanced boiling water reactor.

The foregoing cover only a few examples of the ongoing cooperation between Toshiba and U.S. companies. Desiring to remain a pioneer in technology fields, Toshiba will do its utmost to increase cooperation with U.S. companies for mutual advancement and prosperity through exchanging sophisticated technologies with them, thereby deepening understanding and strengthening Japanese-U.S. ties.

Open Door for Securities

By Kozo Tokuno

JAPANESE SECURITIES COMPANIES started international services after the enactment of the Foreign Capital Law of 1950, which was designed to build up Japanese industries with stable foreign capital inducement. In 1964 Japan became one of the countries placed under Article 8 of the International Monetary Fund and joined the Organization for Economic Cooperation and Development, which increased the international capital movement still further. Under the 1980 foreign exchange and trade law, foreign capital transactions have been permitted in principle. Recently, the internationalization of the yen and the deregulation of the financial system have been in progress, and securities companies' international services have become increasingly important.

Led by the establishment of residential representative offices in New York in 1960, Japanese securities companies have set up 107 business bases in 25 cities and 18 countries. American cities are New York, Chicago, San Francisco, Los Angeles and Honolulu.

In the case of the major securities companies, their international divisions' revenue represents more than 15 percent of their overall revenues.

Securities investments account for 20 percent of Japan's overseas assets. At

Kozo Tokuno is executive vice president of Yamaichi Securities Co., Ltd.

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the end of 1983, Japan's overseas assets were $272 billion (a year-to-year gain of $44 billion), while its net external assets totaled $37 billion, the second largest in the world after the United States. Securities investment accounted for 20 percent or $56 billion of the total overseas assets.

The average differential in the market yield between U.S. Treasury bonds with a maturity of more than 10 years and 10-year Japanese government bonds exceeded 4 percent in the first six months of 1984. As a result, investments in foreign currency denominated bonds, particularly U.S. dollar bonds, by domestic life insurance and nonfinancial business corporations have increased sharply. The net purchase of these bonds by Japanese investors totaled $13 billion in 1983. In July, 1984, alone, the net purchase exceeded $2 billion. The aggregate for the first six months of this year reached $9 billion.

Currently, Japan's overseas securities investments are mainly being carried out by life insurance companies: their overseas investment totals more than $12 billion. Backed by the decision of the United States to abolish the withholding tax on interest income on U.S. bonds purchased by nonresidents, it is forecast that Japanese domestic institutional investors will step up their overseas securities investments.

Foreign currency financing has accelerated, according to a survey conducted by the Bank of Japan. The ratio of foreign currency financing by major domestic corporations was only 19.1 percent in 1981. This figure rose to 24.5 percent in 1982 and to 45.3 percent in 1983.

In 1983, because of the large number of low coupon rate, Swiss franc-denominated bonds floated, the amount of foreign currency denominated bonds raised by major Japanese corporations reached 1,827 billion yen. This was almost half of the total 3,312 billion yen financed with corporate bonds in the same year. As for the management of surplus capital, the weight of foreign currency deposits and foreign currency denominated bonds in the investment portfolio increased. The ratio of foreign currency denominated assets in the annual growth of the investment portfolio climbed to 47.8 percent in 1983, from only 14.1 percent in 1981.

Japanese securities companies play an important role in the issuance of foreign currency denominated bonds by Japanese corporations, and domestic banks are competing for this business by establishing locally incorporated underwriting firms abroad. However, Japanese banks are banned from underwriting corporate bonds.

Starting in December, 1984, however, foreign underwriters have been able to become lead managers of Euro-Yen bonds issued by Japanese as well as foreign corporations.

Equity financing by foreign enterprises in Japan is expected to increase. At the end of 1983, the shares of 1,441 corporations were listed on the Tokyo Stock Exchange. The average daily turnover in 1983 was 178 billion yen, second largest in the world after that of the New York Stock Exchange. However, the shares of only 11 foreign firms were listed on the Tokyo Stock Exchange at the end of November, 1984. The regulation on dou-

ble auditing in Japan and the country of the listing firm was abolished on Jan. 1, 1984. As a result, only the home country audit is required for foreign enterprises listing their shares on the Tokyo Stock Exchange.

In addition, the deadline for submitting the securities report to the Ministry of Finance and to the Tokyo Stock Exchange after the closing of accounts has been extended from less than three months to six months. Accordingly, it is expected that equity financing and listing of shares by foreign corporations will increase, thus encouraging further interaction between Japanese securities companies and major foreign enterprises.

Private foreign corporations are being eyed to increase bond issuance. The yen-denominated foreign bond market, dubbed the "samurai bond market," started in 1970 when the Asian Development Bank (headquartered in Manila) made a public offering of yen-denominated bonds totaling 6 billion yen. Since then, this market has been subject to the fluctuations in Japan's international balance of payments and interest rates. Regardless of large rises and falls in the number of bond issues, however, it has continued to expand. Samurai bonds on public offering or private placement basis by nonresidents totaled 73 issues for a total of 899 billion yen in 1983.

The issuing of samurai bonds by private corporations began in 1979, but due to strict standards there were only four bond issues totaling 80 billion yen in the next four years. However, most of the standards are scheduled to be relaxed shortly. So, it is expected that the number of samurai bonds issued by private foreign corporations will considerably increase from 1985 on.

The issuance of bonds in the Euro-Yen market began in 1977, and 24 issues totaling 370 billion yen were issued by the end of 1983. Any private corporations, whether resident or nonresident, were able to issue Euro-Yen bonds from December, 1984.

Foreign securities firms are boosting activities in Japan. The following nine foreign securities companies are engaged in the securities business today in Japan through 10 offices: Merrill Lynch (started operations in 1972), Vickers Da Costa (1978), Bache (1980), Smith Barney (1980), Jardine Fleming (1981), Solomon Brothers-Asia (1982), Kidder Peabody (1983), Goldman Sachs Panama (1983) and Morgan Stanley (1984).

All are members of the Securities Dealers' Associations of Japan, but none is a registered member of the Tokyo Securities Exchange. They receive 73 percent of the fixed commission from registered members. Brokerage business constitutes 60 percent of the total revenues of foreign securities companies. As for representative offices, there are 89, including 16 securities brokers and dealers, 32 merchant and investment banks, 31 universal banks, and 10 other financial institutions.

It is estimated that the number of foreign securities companies obtaining a license to do business in Japan will greatly increase.

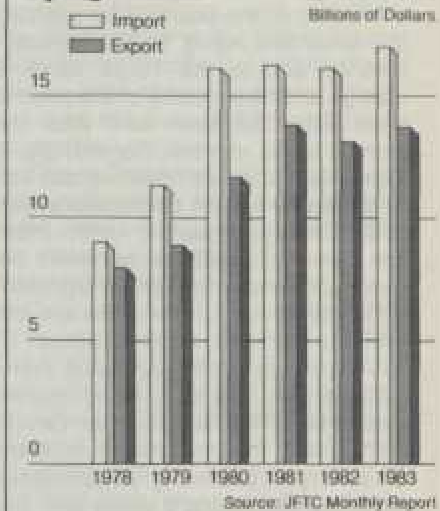
Domestic securities houses will have to compete with foreign competitors on one hand while cooperating with them on the other and developing their international business in the meanwhile. ◻

TRADE HELPS,

Two-Way Trade on Sogo Shosha Bridges

Almost every day of the week, the Japan Foreign Trade Council (JFTC) receives delegations and missions from around the world of visitors interested in asking and learning about business with Japan. Conferences and seminars sponsored by the Council help clarify some of the misunderstandings about Japanese companies and ways of business. The Sogo Shosha Committee of JFTC would like to respond to seven principal questions that have been raised by visitors perplexed by that uniquely Japanese corporate entity—the sogo shosha.

Export to/Import from U.S.A. by Sogo Shosha



Sogo shosha import more American goods than they export Japanese goods—about US$3 billion more.

1. What are the sogo shosha, and how are they unique?

The sogo shosha are long-established general trading companies that concentrate their business activities on trading commodities, natural resources, and manufactured goods from around the world with partners around the world. The size and scope of our business activities are immense: the sogo shosha together transact business worth about US$350 billion annually.

2. How has sogo shosha business affected America's trade deficit with Japan?

The chart at the top of the page depicts sogo shosha trade with the United States. For the past five years, sogo shosha imports of American goods to Japan have exceeded sogo shosha exports of Japanese goods to the United States by an average of US$3 billion. Our business with America actually runs in favor of the United States.

3. Aren't the sogo shosha responsible for trade friction?

Because we are traders, our effectiveness and success depends on a free-trade environment. We strive to demolish the barriers and protectionism that create trade friction. Our American operations are conducted by American companies incorporated in the United States. In fact, these companies are so independent that Japanese nationals receive temporary leaves of absence from their sogo shosha when assigned overseas.

We also aim to improve relations through frequent top-level trade missions. Sogo shosha executives participated in the most recent mission to the United States, whose 15 members met with President Reagan and top government officials to discuss promoting access to Japanese markets.

4. What type of business do the sogo shosha pursue in the United States?

In America, we are represented by subsidiary, American companies that employ Americans to trade American-made goods. The sogo shosha have about 170 offices in small towns, business centers, and major cities in the United States that are supported by over 5,000 workers. We hope to continue our business activities in the United States and to develop closer working relationships with foreign firms able to promote new, beneficial business.

JFTC hosts seminars for visitors like this American Economics Educators group.

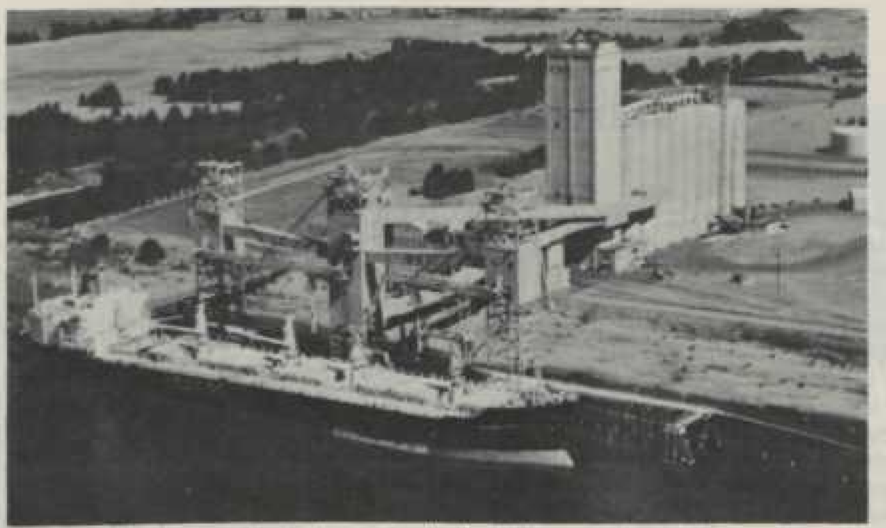
NOT HURTS

5. How much of a stake do the sogo shosha have in the United States?

The sogo shosha handled over US$17 billion—about 70 percent—of American exports to Japan in fiscal 1983. That is 20 percent of our worldwide import business. In fact, the United States is the sogo shosha's biggest single market for both exports and imports.

We want to expand trade with our vital partner. However, demand factors will determine where that growth will be. We already meet most of the needs of our domestic market, often with American goods.

For example, the Ministry of Finance reported that 1983 imports of American soy beans, worth over one-and-a-quarter billion dollars, comprised close to 96 percent of Japan's total soy bean imports. And despite citrus disputes, almost 97 percent of the citrus fruit imported into Japan comes from the United States.



This sogo shosha-owned grain terminal in Portland plays an active role in exporting American products throughout the world.

6. What advice do the sogo shosha offer to foreign firms entering Japan?

Foreign firms have to heed the "Three Ps": Price, Performance, and Perseverance. The product's price has to be competitive with similar Japanese goods; the performance of the product has to beat the high quality of Japanese goods; and foreign firms must be prepared to persevere in the Japanese market. It takes time to succeed in Japan, but great opportunities exist. Most of the successful foreign enterprises operating in Japan, like Kentucky Fried Chicken, Rockwell International, and Rossignol, are affiliated with sogo shosha.

We apply this strategy when operating abroad as well. We are sure our markets can perform, so we can take a longer-range perspective of three to five years from now.

7. Where do the sogo shosha look for future growth?

We are moving away from our pre-oil crisis focus on heavy industry while retaining our basic trading business. The bulk of our trading expertise is built on the rapid processing of raw information: currency rates, commodity prices, contract openings. Thus, we are very interested in, and already heavily involved with, the information and data-processing business ("New Media," as it is called in Japan). New areas like venture financing for high-tech firms and the knowledge-intensive service industries, also point to the diversification of sogo shosha activities.

These seminars are another way the sogo shosha hope to bridge our two countries.

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An Information System Leader

JUST OVER 50 years ago, Masayoshi Yasui, a talented craftsman, founded a small company to manufacture and sell a simple machine for sewing.

Today that company has become a major international producer of a wide variety of home, industrial and office machines. It is known the world over as Brother Industries.

Shortly after he began producing sewing machines, the founder of Brother realized there was an immediate need for better tools for making the machines, and so he set about developing and producing his own tools. By making the machines that make the machines, he could ensure the quality and reliability of the products.

That policy has not changed in 50 years. Today Brother develops and applies its own technology and uses its own materials and machinery for all of its products.

Although it produces a host of high quality home products—knitting machines, microwave ovens, even musical instruments—Brother's greatest success has been in the area of office equipment.

The first Brother typewriter was marketed in 1961. Today Brother's typewriters cover the world market. More than 10 million typewriters that have up to 80 different keyboard designs in 27 languages are being used.

Perhaps the ultimate testimony to the quality of Brother typewriters was their designation as the "official typewriter of the 1984 Olympics." Coinciding with the celebration of the first 50 years of the company, it was both a challenge and a tribute.

As Brother moves into its second half century, the most exciting innovations may be in the field of information systems.

Brother's electronic typewriters and computer printers are already part of the office automation revolution, and its dot printers, daisy wheel printers, keyboards and other similar products are being praised by producers and users alike. Changes in this field are fast and unpredictable, but Brother is confident that it will maintain its position as an outstanding leader in the development of office automation equipment.

Brother assigns top class engineers to projects ranging from product development to basic research. In 1983, 130 new engineers joined the company.

Brother provided 3,000 typewriters to the press at the 1984 Olympics in Los Angeles.

The heart of the Brother success story is the company's technological excellence, and that excellence has been achieved through never-ending research and development.

But product development is just part of the story of research and development at Brother.

Production technology—the perfection of a completely automated production line—has the highest priority. Even now, at one Brother plant, just two workers controlling Brother's flexible manufacturing system produce industrial sewing machines. Designers, engineers, technicians and line operators—all are working together for the Brother of tomorrow.

One of Brother's deepest interests is in the area of community relations. A basic Brother principle is to share, and Brother has endeavored to share its skills, its technologies and its resources to improve the brotherhood of mankind.

Over the years, a worldwide distribution and sales service network has been established and is operating with great efficiency. Brother is facing its second half century with confidence, trust and hope.

It is certain that the company will continue to challenge the unknown to produce the products that will enrich the lives of all.

Peace Through the Palate

IN ITS OWN WAY, the Kikkoman Corporation is trying to promote world peace, says Managing Director Yuzaburo Mogi. It has expanded from soy sauce manufacturing in Japan, starting in 1630, to global operations including numerous food and beverage product lines.

Kikkoman's message has found a common denominator: the human palate.

Says Mogi: "We have introduced Japanese food culture to 80 countries. We import foreign food products like tomato catsup, tomato juice and wine and introduce them to the Japanese. This exchange promotes world peace; food culture is most relevant to human life.

"If President Reagan, [Soviet President Konstantin] Chernenko, and [French President François] Mitterrand and other world leaders have a barbecue party," jokes the Columbia University graduate, "and use Kikkoman soy sauce, maybe we can all be more friendly."

Kikkoman has a soy sauce factory in Walworth, Wis., that uses North American wheat and soybeans and produces sauces for the American and European markets. Kikkoman provided the start-up money, the ancient fermented process (adapted to modern technology) and some business leadership, but the soy sauce Americans purchase is nearly 100 percent U.S. made.

Yuzaburo Mogi, Managing Director (Intl.), Kikkoman Corporation

The sauce is winning greater acceptance as a seasoning for Western foods, in addition to its use with Asian food. Kikkoman's product line also includes teriyaki, sukiyaki, tempura and sweet and sour sauces.

SOME REASONS
STANDS

The multinational electric and electronics giant explains a few of its top performances worldwide—and how these are leading to a more dynamic participation in the U.S. economy.

Toshiba is the world's 10th largest electric and electronics manufacturer (1984 *Fortune* magazine survey), with sales of $12.5 billion for the last fiscal year and a reputation for excellence in everything from microwave ovens to giant fast breeder reactors (FBR). We got to where we are through pursuit of technological innovation in those fields which have had the greatest impact on the quality of our life today.

Forerunner in Telecommunications

The name Toshiba has signified achievement in communications since 1875 when our telegraphic services helped to link the emerging Japanese nation with the West. Today, we are the world's leading maker of magnetron tubes — the core components of navigational systems which make travel safer and faster for all. Toshiba's multifunctional weather radars have already received the IR 100 Award for Technological Innovation from *Industrial Research Development* magazine of the U.S. And now that we're supplying home receiver systems for the direct broadcast services of Satellite Television Corporation, we'll be even more actively shaping the way Americans keep in touch with each other and the world.

Pioneer in Medical Equipment

Few people know that Toshiba is Japan's top manufacturer of medical equipment. Or that we recently developed the world's first magnetic resonance imaging (MRI) system to permit cross-sectional images of living tissue without exposure to X-Rays. But as our activities in the medical field keep growing, so does our reputation. Already, more Toshiba X-Ray computed tomography scanners are used by U.S. medical institutions than those of any other Japanese maker.
And Toshiba's hand in American medicine

Satisfying Customer's Needs

Isuzu's philosophy of customer satisfaction is typified by the new KS22 Class 3 diesel truck, says Shinichi Yamayoshi, president of Isuzu Truck of America.

ISUZU MOTORS, LTD., a world leader in diesel technology, established Isuzu Truck of America as its U.S. distribution and marketing arm in March of 1984. The goal is to study the truck and bus markets in the United States and to identify appropriate niches where Isuzu vehicles could make a significant contribution to American business. The first vehicles introduced in the United States, as a result, were the KS22 urban delivery truck and the MR111 and LT111 medium duty bus chassis.

"We identified two real needs. The first was for a small, maneuverable, economically efficient city delivery truck. The KS22 has proven itself in similar applications around the world," says ITA's President Shinichi Yamayoshi. "The second need was for durable, economical chassis for shuttle bus applications."

In 1984, Isuzu imported a small number of bus chassis, and only 1,000 KS22's. "Our philosophy is to provide complete support for every Isuzu vehicle," explains Yamayoshi. "Because we are just establishing our distribution network, we can fully support only a relatively few vehicles at this time." That will change gradually as Isuzu's distribution network grows from 80 dealers in 19 sun belt states to 255 dealers in 50 states.

Isuzu is also studying opening a bus chassis assembly plant in the eastern United States. The bus chassis market is highly specialized, and such a plant would allow greater flexibility in customizing vehicles to meet customer's needs. Isuzu is also examining the feasibility of opening a truck assembly plant. Either plant would make significant contributions to the U.S. economy.

"We are happy to be a part of the growing U.S. truck and bus markets. We feel we have a bright future because our philosophy is to provide quality vehicles that will increase businesses' profitability," says Yamayoshi. ⊠

"Three Great Oceans" Company

PHOTO: O. YAMANO

Kaoru Iue
President
Sanyo Electric

SANYO Electric Company, Ltd., anticipates an increase in sales and net profit of 20 percent and 23 percent for fiscal year 1984 to 1,350 billion yen and 41,500 million yen, respectively, over the last fiscal year level. Sanyo Electric Company, Ltd., founded in 1947 as a manufacturer of dynamo lighting sets for bicycles, was incorporated in 1950. It has become one of the leading companies in the world, as its name indicates—Sanyo stands for "Three Great Oceans."

Sixty percent of Sanyo's sales come from abroad. It concentrates on overseas production. In addition to exports, it pursues harmonious development in foreign markets. Investment and technology transfer are under way as joint management, and efforts contribute to the expansion of employment and development of industry overseas. Sanyo has 38 companies abroad with 30,000 employes.

Sanyo has been organizing a U.S. production system through capital participation in Fisher Corporation in 1976 and the establishment of Sanyo Manufacturing Corporation and Sanyo E & E Corporation in 1976 and 1978. Sanyo Manufacturing Corporation was formed by separating the Forest City factory from Warwick Electronics, Inc., which produced color TVs. It is a corporation financed by general stockholders, including Sears Roebuck & Company. It began manufacturing electronic ovens in 1979 and has been steadily expanding. Today it has 2,000 employes. Fisher Corporation makes and sells audio equipment and videocassette recorders. Sanyo E & E is the only Japan-affiliated company that produces refrigerators in the United States.

In addition, Sanyo has sales companies such as Sanyo Electric, Inc., in charge of audio equipment, VCRs and household appliances, and Sanyo Business System Corporation, which markets electronic office machines. Sanyo Electric, Inc., served as an official sponsor of the Los Angeles Olympic Games in 1984 in commemoration of the company's 20th anniversary.

In six years since its inception, SBSC has grown from a $20 million company with three product lines to a company with sales over $130 million and five national sales divisions, marketing computers, copiers, facsimile machines, electronic cash registers, dictation machines, calculators, answering machines, cordless phones and related telecommunication products.

The United States is Sanyo's most important market, yielding 30 percent of sales. Through a suitable production system and marketing methods, it will increase efforts in cooperation with manufacturing and sales companies in the United States to guarantee a continued friendly welcome from Americans. ⊠

Number One Auto Importer

IN JUST OVER 27 years, Toyota's operations in the United States have grown from an office located in an old dealership, with 45 dealers, to a sprawling $100 million national headquarters complex supporting 1,100 dealers and 42,000 employes of Toyota Motor Sales, U.S.A., and its distributors and dealers.

Toyota U.S.A.'s 1983 sales volume was nearly $5.3 billion. In 1984 the company sold more than 800,000 cars and trucks, a new record despite import restrictions that limited new car availability. Toyota had the best-selling small truck in the United States last year.

In the company's climb to the number one automotive importer, it built a reputation for producing high quality, fuel-efficient small cars and trucks with a customer satisfaction service rating that ranked it with the industry's most exclusive companies. In recent years Toyota also became known for technological innovations, including an electronically controlled automatic overdrive transmission that provides virtually the same EPA gas mileage ratings as a manual transmission. Toyota also introduced a new state-of-the-art, two-seat, mid-engined sports car called the MR2.

"Of course the widespread acceptance of Toyota's cars and trucks is the most obvious indication of Toyota's U.S. activities," says Yukiyasu Togo, president of Toyota U.S.A. "But Toyota's involvement in U.S. business and society goes far beyond simply selling and servicing cars and trucks."

Yukiyasu Togo
President
Toyota Motor Sales, U.S.A.

Toyota's business and social activities have continued to increase. In 1983 Toyota U.S.A. spent nearly $2 billion on day-to-day operating expenses.

Purchases of U.S.-source parts and accessories have been stepped up. In 1983 purchases from companies such as Goodyear, Rockwell, Bumperline and Kux Manufacturing totaled $206 million, 20 percent more than in 1982.

Production at Toyota U.S.A.'s Long Beach truck bed manufacturing plant hit a milestone in 1984 with the production of its one millionth unit. The plant, producing vehicles since 1972, was the first U.S. facility of an automotive importer.

Since 1973 Toyota companies in the United States and Japan have contributed nearly $13 million to various U.S. organizations. More than $5 million has gone to schools. The company also donated 160 trucks, valued at about $1.5 million, to nonprofit organizations through the "Toyotas For Community Safety" program.

"Toyota Scholarship in Japan" has provided scholarships for nearly 150 high school students to study in Japan.

Focus on Electronics' Growth

GROWTH AND CHANGE have marked the development of Matsushita Electric Corporation of America. In the past 25 years, this subsidiary of the giant Matsushita Electric Industrial Co., Ltd., of Osaka, has grown from a three-man operation importing and selling portable radios to one of America's leading general electronics companies.

With projected sales of about $3.5 billion in 1984, MECA consists of 14 divisions and affiliated companies in North America, including seven for manufacturing, six for sales and one for engineering and service. MECA is known in the United States for its Panasonic, Technics and Quasar brand names, under which it markets a wide variety of electronic products from consumer items such as videocassette recorders and microwave ovens to industrial products such as robots and office automation equipment.

Kiyoshi Seki
President and CEO
Matsushita Electric
Corporation of America

While retaining its commitment to consumer products, MECA also has recognized the tremendous growth potential of industrial electronic products, and it is changing to meet the demands of this market. In 1982, Panasonic Industrial Company was formed to specialize in the high technology area. PIC markets products in such fields as telecommunications, broadcasting, factory and office automation, components and batteries under the Panasonic name.

MECA is an unusual operation combining Japanese and American expertise, according to Kiyoshi Seki, recently named president of MECA.

"MECA's aim is to make the Panasonic, Technics and Quasar brand names synonymous with high quality, high performance and high technology," Seki says. "In working toward this goal, MECA is mixing the various strengths of America and Japan in the same way that two pure metals are mixed together to produce a multi-strength alloy." Like its parent, MECA is organized as a group of largely independent companies. Each product or market area has the benefit of specialized management. Working under the umbrella of MECA, each company also has the advantage of being part of a large, vertically integrated corporation.

"In keeping with our philosophy of promoting public welfare through industrial progress, MECA has tried to contribute to local economic and community well-being through our manufacturing and marketing activities," Seki says. An outgrowth of this corporate philosophy is the Matsushita Foundation. Established in September to commemorate MECA's 25th anniversary, the $10 million foundation is dedicated to U.S. educational programs as a sign of the company's gratitude. "We selected education because it is of great concern to the future of this country," Seki says.

How To Market in Japan

By Sam Kusumoto

A DECADE OR SO ago the United States was the only industrial nation that could survive by depending only on its enormous domestic market. After the oil crisis, this privilege came to an end. Today, America must learn to export, but unfortunately, manufacturers still act as if nothing has happened and continue to concentrate almost exclusively on the domestic market.

Last year the U.S. trade deficit was a record $69.4 billion. This year, the U.S. Labor Department estimates the deficit will be almost double that—$130 billion. Part of the problem is due to the strength of the dollar. But much of the trade deficit is self-inflicted.

Perhaps the biggest trade policy problem is that the United States lacks a clear strategy for international commerce. For example, 75 percent of 1983's $18.14 billion trade deficit with Japan could have been eliminated if America had lifted trade embargoes to Japan on the sale of unprocessed logs cut on federal lands, and Alaskan oil and gas. The U.S. government should establish an association modeled after the Japan External Trade Organization to promote exports and educate Americans on entering foreign markets.

Success in marketing abroad requires four elements: quality merchandise, patience, knowledge of each market and a willingness to adapt. Careful research can pay enormous dividends.

One American company, Mister Donut, set up an experimental franchise inside a linen warehouse in Japan. The firm's employes soon told Mister Donut executives that the counters were too high, the coffee cups too heavy and the donuts too big. Mister Donut made adjustments. Today it is the third largest fast-food franchiser in Japan.

Another point is not to overreact in the face of short-term failure. When I first came to America, even though I had a very good product, I couldn't sell a single Minolta camera for 14 months, except to my friends. In Japan, the most profitable opportunities come through persistence. The quarterly report, American-style, can be a cue for panic.

The United States doesn't produce inferior goods. I *know*; every day I compete against Kodak, IBM and Xerox. All do well selling products in Japan.

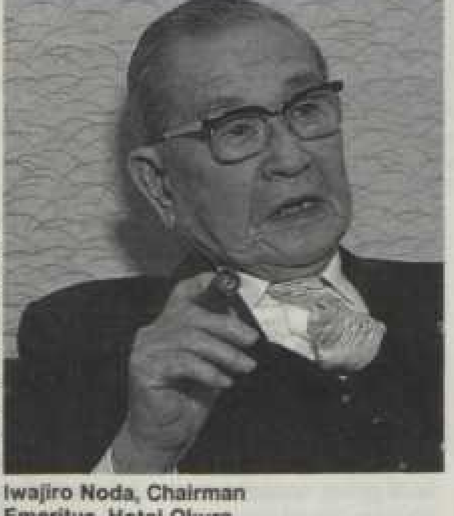
It will take time to change the American bias against exporting. One way to help accomplish this is through the creation of joint venture organizations with 50/50 participation by government and business. I do not mean that the government would put up 50 percent of the capital. I have in mind instead an agency patterned after the Japan Camera Institute.

Sam Kusumoto, President Minolta Corporation

Following World War II, Americans perceived Japanese cameras to be junk. In fact, the cameras Japan was exporting were toys, not real.

To stop the problem, the government and the camera industry established a Japan Camera Inspection Institute. It set tough export regulations, assuring the quality of exported cameras.

Home of the Free Traders



Iwajiro Noda, Chairman Emeritus, Hotel Okura

FREE TRADE has a home in the Hotel Okura. Beyond the "accommodation, cuisine and service" that Chairman Emeritus Iwajiro Noda has made the grand inn's watchwords, it is perhaps the premier center for Japanese-American commerce in Tokyo. Noda himself symbolizes the bilateral atmosphere of his 980-room hotel with 37 banquet halls and 13 restaurants and bars, where Carolinian or Manhattan accents mingle with Japanese-accented English.

After the war, Noda worked with General Douglas MacArthur to break up Japan's old oligarchic economy and move it to an open market system. Noda, who wants Japanese barriers to American beef and citrus products lowered, is still fighting for a freer economic system.

The American guest list at Hotel Okura sometimes fills half the rooms. The American Embassy is right across the street, but the hotel itself is distinctly Japanese. Elegant simplicity, expressed artistically in nature and ancient cultural themes throughout the rooms and facilities, plus a $2 million annual fresh flower budget, give the Okura a special distinction that Noda designed.

Service is the most pleasing feature of Hotel Okura. Noda has trained the staff "to serve from the heart" and has been known to tell the humblest of staffers: "You are the president of the hotel." Each employe must be aware, he says, that when a traveler enters the lobby after a trip halfway around the world he must be made to feel as though, finally, he has come into his home away from home.

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Mutual International Benefits

HITACHI, LTD., practices a corporate strategy that rewards its trading partners. Whether it is building nuclear power plants or selling televisions, manufacturing equipment, electric wire and steel, Hitachi strives to do business in an international market in a fashion that strengthens the multilateral system.

Hitachi emphasizes technology export and exchanges; licensing robotics to U.S. firms, for example.

PHOTOS: HITACHI AMERICAN, LTD.

Research and development, as in the field of robotics, is a driving force behind Hitachi's growth.

"Strong emphasis is being put on the internationalization of our activities," says Chairman Hirokichi Yoshiyama. "In this way we are not concentrating solely on the promotion of exports but are also expanding our direct investments overseas so as to make a greater contribution to the economic development of each partner country."

Typical of Hitachi's efforts to expand overseas procurements is the way the company is handling the production of all stainless steel electric cars to fill an order received from the Metropolitan Atlanta Rapid Transit Authority in 1982. Assembly is being performed at a factory set up in Atlanta, using more than 50 percent American-made components.

Hitachi has arrangements with many firms in the West in the fields of robotics, semiconductors and consumer electronic appliances.

The company, which marked its 75th anniversary last year, is continually evolving. Rapid technological advances in electronics are dramatically reshaping people's wants and needs. For Hitachi, this has meant a polarization of its operating sectors into one group that is growing briskly and another group that, manufacturing mature products, is achieving only slow growth.

Because of this, Hitachi is concentrating its corporate resources on the high-growth sectors, while at the same time continuing to revitalize its mature product sectors. Management's aim is the enhancement of growth potential throughout the company. To attain this, it is essential that new life be injected into factories that are involved in the production of low-growth products.

Therefore, Hitachi is not moving people out of older factories, but is shifting the production of new high-growth products to them. This enlightened management method means a plant that moves into the production of new products is able to continue expanding operations and make use of existing personnel while reducing costs and increasing the competitiveness of its conventional products, because the new products absorb part of the plant's indirect costs. It also means employe morale will be high.

Flights Increase With Trade

SPECIAL ADVERTISING SECTION

JAPAN AIR LINES, showing confidence in expanding commerce between the United States and Japan, is increasing flights under a new four-year plan. In 1986, the airline plans to begin nonstop service between Chicago and Tokyo, in addition to the three weekly flights that now stop in Seattle. New York's seven weekly flights will increase to nine.

By 1987, there will be 14 weekly flights between San Francisco and Tokyo, up from the nine weekly flown now. Los Angeles and Tokyo will also have heavier traffic, warranting an increase from 11 weekly to 14. "The aim of the plan," says JAL President Yasumoto Takagi, "is the creation of an economically sound, reliable and respected airline."

PHOTO: JAPAN AIR LINES

Japan Air Lines continues to add advanced jets to its growing fleet.

Company analysts estimate 4 percent annual growth in international passenger traffic and 8 percent for non-Japanese traffic. International air cargo growth is expected to rise at the rate of about 7 percent annually.

Fleet expansion plans call for 11 more Boeing 747s by the end of 1988 and 11 Boeing 767s. JAL will retire 12 Douglas DC-8s and lease out its 20 Douglas DC-10s to its subsidiary, Japan Asia Airways. By the end of 1988, the JAL fleet will stand at 87 aircraft.

JAL also plans to move further on the ground. "Air transport is the heart of JAL's operation," says Takagi, "but the company will develop new areas of business with greater growth prospects and better opportunities for prosperity and stability in order to strengthen its management and the well-being of the JAL group as a whole."

JAL is already active in cultural and educational development projects, resort development, computer software and engineering, and other fields.

Clockwise from upper left: Lasers, robots, optical memory disks, microchips, color tomography, photodiodes, semiconductor circuits, liquid crystals, and (center) a computer-scanned human eye. Products of high technology made possible through Hitachi research and development.

Since 1910, Hitachi has been guided by a single corporate philosophy: To create original products with original technology. That was the motivating spirit behind our first electric locomotive in 1923. Our first electron microscope in 1939. Our first laser satellite tracking system in 1968. And it has remained the driving force in our development of data processing equipment, home electronics products and industrial manufacturing systems right through to the eighties.

We turn imagination into reality

Today, the results of Hitachi research are in use all around you. Laser devices with the power to cut, cure and communicate. Large-scale integrated circuits that serve as the brains and memories of sophisticated computers. High-tech audio and video equipment for total home entertainment.

In fact, we are constantly coming up with innovations and new applications. One case in point: A device that focuses an ion beam just 0.5 microns in diameter on semiconductor surfaces, for microscanning and etching of circuits at temperatures in excess of 3,000°C.

The best of worlds is yet to come

Our vision of the future includes telecommunications networks that span the globe using fiber optics, satellites, laser relays and similar technologies. We see tomorrow's society served by multipurpose robots, ultra-rapid transit systems, biotech medicines, and much, much more.

We'd like you to share in the benefits of our scientific research, covering the next generation of microchips, computer control systems and other high-tech innovations. For improved business efficiency. For a higher quality of life. Two goals we've pursued for 74 years as part of our commitment to a better world through electronics.

Net Sales	*$19,410 Million*	*Employees*	*161,533*
Net Income	*$743 Million*	*Shareholders*	*239,776*
Subsidiaries	*576*		

Year ended March 31, 1984

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Devotion to Promoting Imports

By Shoichi Akazawa

JAPAN'S Prime Minister Yasuhiro Nakasone has said, "It is imperative that we make a positive contribution to the development of the economies of individual countries, and the world economy in turn, by expanding the amount of manufactured goods we import."

Boosting imports is practical from a domestic standpoint, too. Competitively priced, high quality goods from abroad can help Japan's standard of living.

Not long ago, Japanese women living abroad were asked if they had found any products they wished they had had in Japan. The list was impressive for its length and diversity. It showed countless foreign products could be successfully marketed in Japan.

That is why there is a Japan External Trade Organization.

JETRO was created as a nonprofit governmental organization for the promotion of Japan's external trade, but the international trade situation has changed dramatically.

Most of JETRO's resources are now committed to import promotion and economic cooperation. For that reason, it has been suggested that JETRO's name be changed to JITRO, for "Japan Import Trade Organization."

JETRO is probably the world's largest and most active government-affiliated organization devoted to increasing the flow of goods into its own country. About 1,200 employes work out of a global network of 100 offices, including five in the United States.

What can JETRO do for American businesses? Plenty.

JETRO annually sends dozens of buying missions abroad, particularly to the United States.

It also sends experts to American trade fairs to advise local companies on gaining access to the Japanese market. American sellers are introduced to Japanese buyers, and business negotiations are arranged by booth personnel.

The largest-ever Japanese import fair for American products will be held in Nagoya next March 11-14. Jointly sponsored by the U.S. Department of Commerce and JETRO, the Made in U.S.A. Fair will be an excellent opportunity for American firms.

Shoichi Akazawa is a longtime friend of Prime Minister Yasuhiro Nakasone.

Admission will be reserved for Japanese business people, who will be introduced to U.S. exhibitors by JETRO.

Exhibition space has been enlarged to 400 booths from a planned 300 in order to accommodate over 320 American manufacturers, exporters, trade associations and state governments (representing 30 states).

One hundred ninety booths will be allocated to the exhibition of high tech and industrial products. Among these, medical equipment and related products will be exhibited by nearly 40 companies. Over 30 companies will show high tech-related products like CAD/CAM and biotech equipment. Other industrial machinery, equipment and materials will be brought to the fair by some 70 companies.

One hundred eighty booths will be devoted to companies pursuing the Japanese consumer market. Thirty firms will exhibit sporting goods and recreational equipment. Other consumer items, including housewares, novelties and health foods, will be shown by nearly 130 companies.

JETRO has committed itself to introducing American exhibitors individually to prospective Japanese importers, distributors and other buyers, and to arranging business meetings for each exhibitor with appropriate Japanese trade associations and individual companies. This work is being supported by the Ministry of International Trade and Industry, which has fully endorsed the Made in U.S.A. Fair.

Finding out who wants what is the essence of trade. With over 2,000 entries and with 100 product categories cross-referenced, JETRO's new publication, *2,000 Importers of Japan*, can pinpoint who and what a foreign company needs to know when entering the Japanese market. Only Japanese companies expressly interested in imports are listed in the directory. New entries and information will appear in successive issues.

In addition, JETRO will sponsor other imported product fairs, collect import information for libraries it has in Japan and conduct domestic marketing surveys on imported products.

On behalf of Japan's Office of Trade and Investment Ombudsmen, JETRO will process any trade grievance related to the openness of the Japanese market.

No matter how much JETRO does to assist your firm in exporting to Japan, the bottom line for success remains with you.

The first key to success is strong desire to export. You will have to deal with language difficulties, cultural differences and geographic distance.

The second key is product marketability. Precise market surveys must be conducted.

The third key is competitive pricing. In Japan, price and quality, not country of origin, are the crucial factors in the consumer's decision to buy.

If these fundamental requirements can be met, your chances for success in Japan will be greatly improved. And along the way, should you need any assistance, call JETRO. NB

SHOICHI AKAZAWA, *chairman of the Japan External Trade Organization, has had a career that has included service in Japan's government as director general of the Heavy Industry Bureau and in private industry as executive vice president and vice chairman of Fujitsu, Ltd.*

To Learn More

For further information, contact the JETRO office nearest you:

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JETRO headquarters in Tokyo:	03-582-5511

A Silver Cloud With a Dark Lining

SMALL BUSINESS owners are positive about the economy in 1985, but not overly so. In their minds, high interest rates and a swollen deficit are potential spoilers.

Most small companies will focus on improvements that enhance capacity and productivity, rather than on big-ticket construction projects.

Although small firms will keep a tight lid on costs, about 45 percent intend to increase their advertising and marketing budgets, according to a Dun & Bradstreet survey of small business owners. The report also found that small firms' installation of computers will continue at a brisk pace.

The small business sector this year will press Congress to "establish an environment that invites economic growth, that lets the market work and the entrepreneur innovate," says Van P. Smith, chairman and president of Ontario Corporation and chairman of the board of the U.S. Chamber of Commerce.

Virginia Littlejohn, president of Littlejohn Johnson, Inc., a Washington-based consulting firm, and president of the National Association of Women Business Owners, concurs. "I see entrepreneurship as next to godliness. It's absolutely central to economic growth. Both political parties need to have entrepreneurship as the centerpiece of their thinking when formulating an economic growth agenda that removes entrepreneurial barriers. We're not going to see the giant corporations generating millions of new jobs."

Small business groups will be looking for ways to improve financing. "We have a loan system that, while not perfect, gets more accommodating to small business each year," Smith maintains. "But in the area of access to equity capital, we have a long way to go, especially when a business person needs less than $250,000 or $300,000."

One idea that is gaining popularity: allowing banks to place a modest portion of their assets in an account from which they would be able to make equity investments in small business.

Smith expects more local and state governments to devise more "sophisticated economic development plans that include measures for supporting start-ups and existing businesses."

Communities are recognizing that many new jobs for their areas will come from local businesses, rather than from "trying to steal a plant from some other part of the country," Smith adds.

If the Treasury tax plan unveiled last November is enacted this year, established smaller firms will for the first time get equal tax treatment with financial institutions, insurance companies and some basic industries that have done well under current accelerated depreciation rules. And extension of the R&D tax credit would be another positive aspect.

HOWEVER, start-up firms could be in trouble under the plan, since investors' profits from buying and selling stock in new enterprises would be taxed the same as other income, thereby eliminating preferential capital gains treatment and investors' desire to risk backing new firms.

PHOTO: SUE KLEMENS

Consultant Virginia Littlejohn predicts more joint ventures among entrepreneurs internationally in 1985.

What industries hold the most promise for start-ups in 1985? Littlejohn sees creative opportunities continuing for "absolute top-of-the-line computer software, voice-activated computers, computer graphics and computer security." Any industry that is being deregulated holds growth potential, according to Littlejohn. Good prospects are cellular phones, the commercialization of space and, to a lesser degree, the education and retraining of workers.

Littlejohn says there will be more international ventures involving U.S. and foreign entrepreneurs who will rely on each other's expertise "and compensate for any inefficiencies such as too high labor costs."

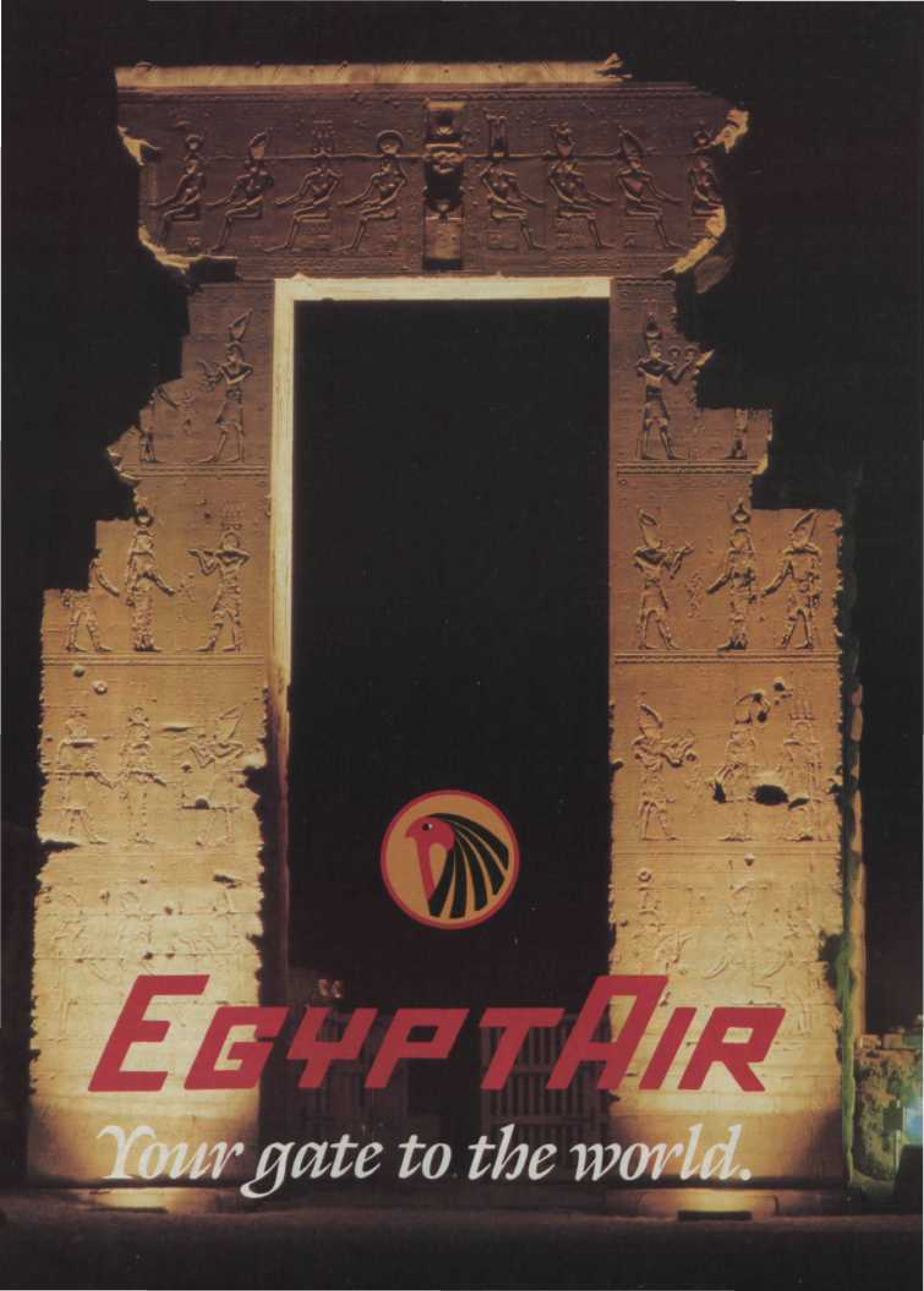
She continues: "New technologies are coming on stream fast and being picked up equally rapidly by other countries, so we're really going to have to pay attention to our basic research and the commercialization of that research to stay ahead of the curve."

The Small Business Administration has been targeted by the Reagan administration for possible abolition as part of the effort to reduce the federal deficit. If the agency survives, it will continue to decentralize, giving more responsibility to regional offices and heavily promoting incubators, bringing together under one roof a group of fledgling businesses that can share services—from computers to typing pools—and experiences.

In the next five to 25 years, predicts D. Bruce Merrifield, assistant secretary of Commerce for productivity, technology and innovation, big business as it is currently structured will vanish. What will evolve instead will be "small business units," he says, as small business becomes the dominant force in the economy.

The U.S. Chamber's Smith sums up the feelings of small business:

"We want to see government maintain reasonable spending levels and minimum taxation levels, moderate the regulatory burden and hold to a stable monetary policy. If government would dedicate itself to doing those things, it's amazing what the American small business community would do for government and for this country."


EGYPTAIR
Your gate to the world.

Home, Deductible Home

By Barry Salzberg, C.P.A.

ALTHOUGH MOST PEOPLE don't think of it that way, they are probably living in a real estate tax shelter. Whether you build a home or buy one already standing, certain tax benefits will automatically come your way.

Mortgage interest and property taxes are, of course, deductible. Closing costs, such as points paid to obtain permanent mortgage financing, are deductible if the amount is in lieu of interest payments on a residence.

But if you are in the market for a new home, there are greater advantages in buying a building site and becoming your own general contractor. You will still use a builder, so by acting as the contractor, you will merely be obtaining your own construction loan to pay for all the building materials.

As the general contractor, you will be allowed a tax deduction for the amount of interest incurred on any loans used to finance the construction. You also will be allowed a deduction for the sales tax paid on construction materials, provided the amount is separately stated and paid by you to the seller of the materials. If you had bought an existing home, these costs would not be deductible.

Assume that you purchased land for $50,000 and named yourself as the general contractor for the construction of your home. Also, assume that you obtained $200,000 of financing at 14 percent to build the home. If the house takes five months to build, assuming the costs are prorated at 20 percent ($40,000) each month, then the total interest cost will be approximately $7,000. If 60 percent of the financing was used to buy materials and the sales tax rate was 5 percent, the total sales tax cost would be nearly $6,000.

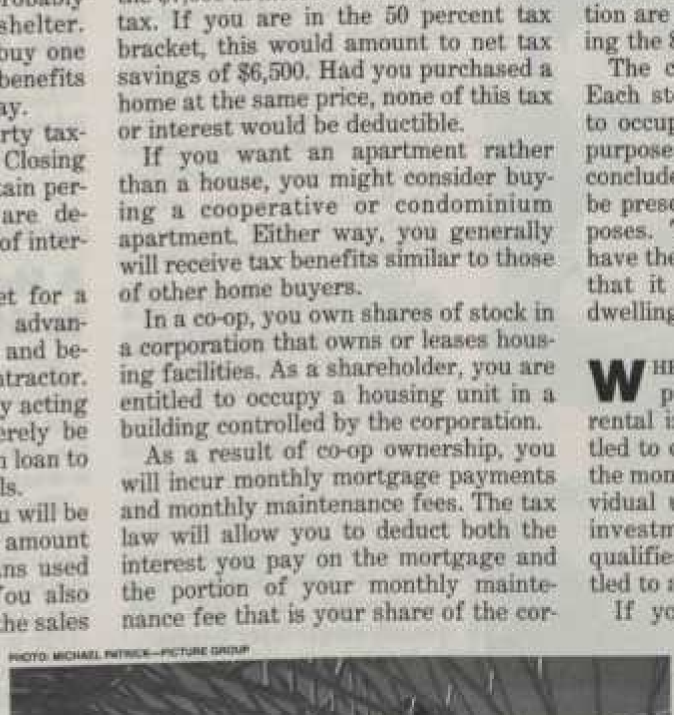
Thus, by constructing your own home for $257,000 ($200,000 for the loan, $7,000 in interest and $50,000 for the land) you would be able to deduct the $7,000 in interest and $6,000 in sales tax. If you are in the 50 percent tax bracket, this would amount to net tax savings of $6,500. Had you purchased a home at the same price, none of this tax or interest would be deductible.

If you want an apartment rather than a house, you might consider buying a cooperative or condominium apartment. Either way, you generally will receive tax benefits similar to those of other home buyers.

In a co-op, you own shares of stock in a corporation that owns or leases housing facilities. As a shareholder, you are entitled to occupy a housing unit in a building controlled by the corporation.

As a result of co-op ownership, you will incur monthly mortgage payments and monthly maintenance fees. The tax law will allow you to deduct both the interest you pay on the mortgage and the portion of your monthly maintenance fee that is your share of the corporation's mortgage interest and real estate tax. To obtain this latter deduction, you must be a "tenant shareholder" (basically, only individuals qualify) and the co-op must qualify as a "cooperative housing corporation."

PHOTO: MICHAEL PATRICK—PICTURE GROUP



By acting as your own general contractor, you will be able to deduct the sales tax on your new home.

To qualify as a CHC, the co-op must meet several tests. One is that it derives at least 80 percent of its gross income from tenant shareholders.

Most co-ops have difficulty in meeting the 80 percent test. In a recent private ruling, the Internal Revenue Service confirmed its position that payments for an apartment used by a doctor, dentist, lawyer or other professional acting in the form of a corporation are not to be considered in satisfying the 80 percent requirement.

The co-op must meet another test: Each stockholder must have the right to occupy a housing unit for dwelling purposes. The IRS in a recent ruling concluded that the apartment need not be presently suitable for dwelling purposes. The stockholder must merely have the right to alter the apartment so that it might be made suitable for dwelling purposes.

WHEN A CO-OP is used for business purposes or is sublet to derive rental income, the *owner* will be entitled to deduct all or a major portion of the monthly maintenance fee. If an individual uses the co-op for business or investment purposes *and* the co-op qualifies as a CHC, he will also be entitled to a deduction for depreciation.

If you buy a condominium apartment, you will own outright a dwelling unit in a multi-unit structure. You will also own a share of the common elements of the structure such as the land, lobbies, elevators, and parking and garage areas.

As with the purchase of a house, you may deduct your mortgage interest payment. You may also deduct your share of any annual dues you pay to an owners' association that comprises real estate taxes on your interest in the land and on the parts of the building owned in common. In addition, you may deduct taxes directly assessed on your apartment unit and on any separate interest you own—a parking space, for example, or a storage area.

If you use your apartment for business purposes or sublet it to derive rental income, you may obtain a deduction for depreciation. And, as with a co-op, your entire monthly maintenance fee would be deductible.

Direct real estate ownership, in the forms described above, has become increasingly popular. As a form of tax shelter, it offers not only significant tax benefits but also substantial economic advantages.

BARRY SALZBERG *directs the New York region personal tax service group of Deloitte Haskins & Sells.* For Your Tax File *is an information service for readers. See tax and legal advisers on specific cases.*

Exotic Edibles In the Limelight

PHOTO: STEVE SMITH

Getting exotic produce into America's kitchens is a $12 million business for Frieda Caplan (center) and daughters Karen (left) and Jackie.

If you have ever purchased tofu from a supermarket, cooked a spaghetti squash or eaten kiwi (the pretty green fruit that tastes like a banana-flavored strawberry), Frieda Caplan has touched your life.

Described by agriculture and health writers as a "marketer extraordinaire" and a "produce visionary," the Los Angeles businesswoman is founder and president of Frieda's Finest/Produce Specialties, Inc.—better known under its purple label as Frieda of California. The *Los Angeles Herald Examiner* said Caplan does for exotic produce "what [impresario] Sol Hurok once did for dancers. She discovers new and untried fruits and vegetables with mass-market potential and promotes them until they achieve nationwide star billing in supermarkets and on dining tables."

That is exactly what she does, and she has turned it into a $12-million-a-year enterprise.

Caplan's career making stars of obscure edibles began 29 years ago, when she went to work for a Los Angeles produce wholesale house managed by her husband Al's aunt and uncle. She had a 3½-month-old baby, Karen, and needed the work because Al Caplan was just starting his own business as a labor relations consultant.

She became hooked on the produce business, learning how to buy and sell and developing a rapport with both growers and retailers. When a second daughter, Jackie, was born in 1958, Caplan missed one day from work—Sunday, the baby's birthday. By Monday, she was selling mushrooms from her hospital bed.

Caplan opened her own produce house in 1962 with a $10,000 loan from her father, a tailor who had immigrated to the United States from Russia. Not long after, the produce manager of a local supermarket asked her if she could locate an item she had never heard of: Chinese gooseberries. Caplan found them in New Zealand and purchased 240 flats (10-pound, single-layer boxes).

Importers, who felt the name "Chinese gooseberries" was not very marketable, had begun calling them "kiwi fruit" after the New Zealand bird. Caplan picked up the new name and began to promote it. Now she sells 100,000 flats annually, and the fruit has become so popular that about 1,000 California farmers are growing it.

Since then, Caplan has popularized edibles from around the world, from Asian pears to baby zucchini. While she does not take credit for introducing tofu to the United States, she did introduce it to the supermarket produce section. She renamed the Jerusalem artichoke the "Sunchoke" (a trademark) and, she says, "brought that into the marketing stream."

"Our major function is that of merchandising products," says Caplan.

Her success has depended on winning over produce buyers in supermarket chains nationwide—including Safeway, Jewel, Giant and Grand Union. She has done this by making it easier for retailers to sell her strange wares. Knowing that consumers would not buy an unfamiliar product if it cost too much, she puts her items in small packages usually costing $2 or less. And she includes instructions and recipes so the consumer can take the produce home and use it right away.

Caplan used to be at work by around 2 a.m. Buyers start buying at midnight, and you have to be available to sell, she explains. But now she has the luxury of arriving as late as 6 a.m. The baby daughters have grown up, and Karen, who runs the daily activities of the company as vice president and national sales manager, takes the early shift. Sister Jackie recently joined the firm's national sales staff.

Along with their mother, they are helping to put starfruit, cactus leaves and fiddlehead greens on your table.

—Sharon Nelton

A Humane Way To Stop Criminals

Police Capt. James A. Smith likes to think he has taken humans a step further from the Stone Age by replacing the club, or nightstick, with an electronic weapon—the Source.

The Source delivers a jolt similar to a severe bee sting when it touches the body. Smith invented it to help police disarm attackers without using excessive and physically damaging force.

"It is one of the fastest and safest take-down and come-along weapons used today," Smith says.

Thousands of police officers agree. Smith's company in Largo, Fla., the Universal Safety Corporation, has sold more than 20,000 of the weapons to law enforcement agencies in the United States and in foreign countries. At $139 each, that is nearly $3 million in sales.

Smith, who is mum about corporation profits, says he has received orders from Spain, Saudi Arabia, Italy, Oman and France. "We've barely tapped the U.S. police market, which spends $8 bil-

James A. Smith's Source helps fellow police disarm criminals harmlessly. To demonstrate, Smith "apprehends" Paul Ellison, a manager in the company Smith founded to produce the weapon.

lion to $10 billion a year on equipment similar to ours," he adds.

"It took me eight years to develop the Source," says Smith. "I didn't want to invent just another cattle prod or shocking device that burns the skin or risks stopping or interfering with the rhythm of the heart.

"My objective was to eliminate the use of bludgeon-type weapons, substituting a small, safe electronic device."

A nightstick, for example, will "damage the subject no matter how lightly you hit him," Smith says. "I have seen officers well-trained in the use of nightsticks cause serious injury. Last year alone there were some 27,000 lawsuits involving excessive force. There were none involving the Source."

Smith has been in law enforcement 31 years, in Colorado, Ohio and Louisiana, and remains on the St. Charles, La., force as a consultant. He is president of Universal Safety Corp., which he formed four years ago after finding several investors willing to put $2 million into development of the Source.

The Source has several unique qualities. At one end of its 14-inch, unbreakable, hard cylinder is a powerful flashlight that throws a 600-foot beam. At the other end is its two-prong stinger. The weapon is waterproof and fireproof, and its sting can penetrate clothing one fourth of an inch thick.

Best of all, it adds to an officer's mobility by reducing the load he carries on his belt. A conventional police flashlight and nightstick weigh six pounds. The Source weighs 18 ounces.

"It also contains just one battery that will take recharges for 15 years," Smith says. "That's a considerable savings, considering the average police department spends $12 to $18 a month for flashlight batteries."

A sting from the Source shocks assailants into dropping weapons and pulling back from a fight. Smith also teaches police how it can be used to break up unruly gangs or barroom brawls.

"We won't sell to the general public, of course," Smith says, "but I have a new civilian model of the Source in the works."

He hopes it will cut down on people's cracking each other's skulls with baseball bats, blackjacks and bludgeons.

"The human race has been using clubs on each other since caveman days," says Smith. "The Source is a better way, a more humane way, to ward off an attacker."

—Del Marth

The Horror King Of the North

Twenty years ago, a discouraged film producer stopped in northern Wisconsin while traveling, took a look around and decided he had found a good place to get away from the world.

William Rebane, an Estonian native who grew up in West Germany, came to the United States with his parents in 1953. After working in theater circles in Chicago, he made his way into the movie business in the United States and Europe. But he became frustrated by movie work—he put 18 months into what was to have been the first television miniseries, a World War II epic called "The Final Guns," and the film was never completed.

"I just wanted to get lost somewhere," he says. "I wanted to write."

Rebane, 46, did not stay lost. He ran a tavern near Tomahawk, Wis., for a year and half, but he was drawn like a kite on a string back to films. Instead of working for somebody else, however, he made his own features—on 130 acres of farm and forest, bordered by a winding trout stream, a lake and country roads where deer melt into the swamps when cars roar past. He had acquired an old homestead house with the land, in nearby Gleason, and he, his wife, Barbara, and their four children moved in.

Rebane has since become the horror film king of the northland, turning out cheap nail-biters for the second half of drive-in movie bills. The genre has its own niche—Rebane's "The Giant Spider Invasion" is considered a classic bug film.

Running on a low budget, Rebane pressed Barbara into all phases of film making. He brought in professional actors when necessary but used area residents as extras and local sites for "location" shooting. Even his two sons and two daughters have been cast in films.

There have been nine feature films so far. And Wisconsin winters don't faze Rebane. "The Capture of Bigfoot" was filmed in 40-below-zero weather.

But the movies have really served as means to an end. Rebane has been plunging his revenues, about $200,000 a year, into upgrading and promoting his facilities as the only fully equipped studio in Wisconsin—the Shooting Ranch, a film outpost that can be leased to other independent producers.

The way Rebane sees it, independent filmmakers and major studios alike are constantly on the lookout for fresh locations and cheap labor. Hollywood's high costs have led to more location shooting, with states and cities vying for movie production revenues.

PHOTO: THE SHOOTING RANCH LTD.

Giant spiders help filmmaker William Rebane pay the bills while he promotes his Wisconsin studio to other producers.

Rebane considers the Shooting Ranch a leisure lodge for filmmakers. Celebrities and filmmakers enjoy remote areas if they are offered the amenities, he says. In addition to his sound stages and equipment, he recently completed a suite and office for visiting producers and a restaurant, lounge and living quarters for film workers.

So far, Rebane has attracted a few small productions, but he is waiting to close deals on larger projects that have been promised him. In the meantime, he still makes films. You can see them in any drive-in—after the main feature and the popcorn break. Rebane is making no apologies for his product. "That's what sells tickets," he says.

—Larry Van Goethem

Section begins on page 10.

A Lot Depends on the Deficit

INVESTMENT HOUSES and brokerage firms could enjoy a financially fulfilling year in 1985—if inflation, interest rates and federal spending are under control. And investment experts foresee more mergers and acquisitions in their industry this year, in addition to a steady stream of new firms.

George Ferris, chief operating officer of Ferris & Company, an investment firm in Washington, predicts this year will be a busy one in the stock and bond markets, with much of the bond activity focusing on municipals.

"The basic products of the securities industry look extremely attractive both to domestic buyers and to foreign investors who view the dollar as a haven today," Ferris says. "Where else are people going to invest? In a disinflationary environment, you certainly don't want to go to commodities or gold for investment."

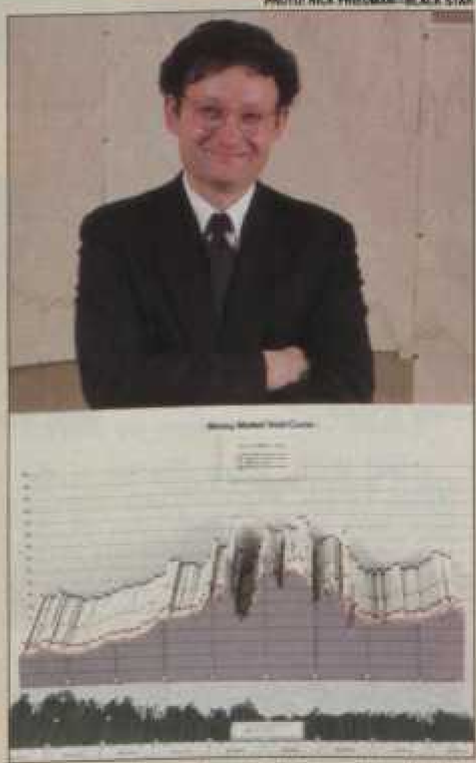
Mergers and acquisitions of securities firms should continue to be attractive in 1985, says Ferris, as large companies like insurance firms with a good supply of capital seek to enter the financial services business. Ferris says the price is right: "Publicly traded securities firms are selling on average about 1½ times their book value instead of significantly more."

The daily volume of stock shares traded in 1984 averaged 92 million, up slightly from 1983's 85 million—about a 6 percent jump. For 1985 the outlook is about the same, with more trading by institutional than individual investors. If the deficit is reduced, individuals' investment will probably pick up as investor confidence increases.

Says President Donald Spiro of New York-based Oppenheimer Management Corporation: "An aggressive program to hit the budget deficit head-on, with a continued drop in interest rates and oil prices, should lead to a strong surge in the equity market. A renewed interest in equities could result in the Dow Jones reaching into the 1400 to 1500 range by early this year."

The year promises to bring continuing growth in foreign investment, say market analysts, with foreign investors accounting for a rising percentage of both market activity and stock ownership. Net foreign purchases of U.S. stocks rose eightfold between 1970 and 1983, to $5.3 billion.

PHOTO: RICK FRIEDMAN—BLACK STAR



Mutual funds are headed for another "up" year, predicts Fidelity's Leo Dworsky.

By the same token, U.S. pension funds are becoming "increasingly active" in foreign securities, according to Securities and Exchange Commission Chairman John Shad. Roughly one fourth of the 1,600 largest pension funds now hold foreign securities, compared with only 8 percent just five years ago. Between $20 billion and $25 billion in U.S. pension fund investments may go into such securities within the next two years, says Shad.

Consumers' demand for tax-minimizing or -deferred investment products has combined with institutions' desire for income enhancement to make mutual funds one of the most popular investment vehicles for both types of investors. They have provided a vast array of products, from tax-exempt money market funds to sector funds—several portfolios, each concentrated in a single industry, and all under the umbrella of one fund—that can satisfy almost every conceivable investor need.

It appears that the mutual fund industry will be "up" again in 1985, says Leo Dworsky, a vice president of Fidelity Management and Research Company, part of the Fidelity Group, an investment management firm.

One force that will give the industry a boost in 1985 is the "tremendous growth witnessed by Individual Retirement Accounts, 401(k) savings plans and other retirement programs," Dworsky says. Nearly 30 percent of U.S. households with incomes of $30,000 to $49,999 now invest in at least one mutual fund. Nearly half of households with incomes of $50,000 or above do.

Mutual funds will prove more and more alluring to institutional investors as "an important adjunct investment vehicle this year," Dworsky predicts. Institutional holdings of equity, bond and income funds have nearly tripled since 1970, from $10 billion to almost $30 billion.

Innovation, the hallmark of the industry, will continue to be its strong suit in 1985, experts forecast.

TAKE THE RECENT launching of a new no-load (no sales commission) mutual fund, FundTrust, which will invest in shares of other mutual funds. Then there is Pioneering Management's growth-and-income Pioneer Fund, which enables investors to have part of their money in another mutual fund that invests in small, relatively unknown companies.

And for the corporate investor, there is the Fidelity Corporate Trust: Adjustable-Rate Preferred Portfolio, an investment alternative for corporations seeking high after-tax income and minimal price fluctuation.

Says Dworsky: "Whether a person puts his money into a money market fund, an aggressive equity fund, a tax-exempt fund or a corporate bond fund, our industry has them all and will continue to be accommodating."

—Mary-Margaret Wantuck

Technological innovations like this rotary forge in Baltimore are expected to contribute to greater productivity in steel.

Drug manufacturers will benefit from new uses being found for the chemical industry's products.

The Auto Boom May Flatten Out

After enjoying its second boom year in a row in 1984, with strong growth in sales and profitability, the U.S. auto industry is expected to level off in 1985.

"I think the outlook for 1985 is favorable," Ford Motor Company Chairman Philip Caldwell told NATION'S BUSINESS. "The industry will be at a fine level although not a growing one.

"In numbers it looks like 1984 sales totaled about 10.5 million cars and 4.2 million trucks, and 1985 should be about the same."

Profits, which climbed in 1983 to $7.4 billion after three years of losses, may have topped $10 billion in 1984 and "will continue to be good in 1985," Caldwell says.

General Motors Chairman Roger Smith is even more optimistic. He predicts auto and truck sales this year in the United States will be half a million units higher than last year, exceeding 15 million for only the second time in history.

The highest figure ever was 15.4 million in 1978.

U.S. automakers have spent $60 billion since 1978 on modernizing plants and developing new cars and trucks. They have cut unit labor costs, reduced inventory and supply costs, and improved productivity. They have developed better labor relations and improved the quality of their products.

GM will spend $8 billion this year, up from $6 billion in 1984.

David Willis, policy director of the Motor Vehicle Manufacturers Association, says import penetration of the U.S. market has declined slightly in the last two years from its 1982 high of 27.9 percent of unit sales, in part because of Japanese voluntary quotas.

Caldwell says that currency imbalances, caused largely by federal budget deficits, give foreign car manufacturers an unfair competitive advantage because the strong dollar permits them to sell their products cheaply in this country.

"Domestic producers are competing against imports which are in effect subsidized," he says, "while they themselves cannot compete outside the United States because they're carrying a burden on their backs that their competitors don't carry."

Caldwell predicts increasing cooperation here and abroad in the manufacturing of cars and of components that "could be common in their use by several producers."

Chrysler Corporation Chairman Lee Iacocca says his company is less interested in bringing in more cars from Korea and Japan. "I'm not ready to cut and run yet," Iacocca says. "We think our future is here on this continent. This is our market, and this is where we want to produce the bulk of our cars."

One growing trend, Caldwell says, will be to reduce the range of options confronting car buyers: "We will package our offerings so the customers are required to make fewer choices."

Industry figures show U.S. motor vehicle production has been running recently at a $156 billion annual rate. The MVMA's Willis points out that this is a 4.2 percent share of the gross national product, still below the 1976-1979 average of 4.8 percent of GNP. Capacity use is back up to a healthy 86 percent and employment has risen almost 200,000, to 864,000, still short of the levels of the 1970s.

As for the quality of U.S. cars in world competition, Caldwell says, "we still have some work to do, but we are absolutely dedicated: We won't be satisfied until we can say we're building the best, bar none."

—Harry Bacas

A Good Year For Chemicals

Chemical industry shipments are expected to rise 4.4 percent this year, according to the Commerce Department. It also predicts an $8 billion trade surplus in chemicals because of strong demand for high-value-added products made from petrochemicals and organic chemicals.

Paul Oreffice, Dow Chemical Company president and chief executive officer, says industry shipments should grow at least half again as fast as the economy. He expects a 6 to 7 percent rise in their value, as against a 4 percent rise in gross national product.

"It should be a relatively good year for the chemical industry," Oreffice says, because of "a very good business climate," in which raw material costs will be lower and prices will generally be up a modest 2 percent.

PHOTO: FORD MOTOR COMPANY

Ford's Philip Caldwell predicts another good year for auto profits.

PHOTO: WALLY McNAMEE—WOODFIN CAMP

Lee Iacocca says he wants to keep Chrysler car production in this country.

PHOTO: T. MICHAEL KEZA

Richard Osborne says strong demand will reduce excess supplies of copper.

The makers of a wide variety of products, including coatings, gases, drugs, detergents, fertilizers and biologically engineered products, are benefitting from the growing number of uses for products made from carbon-based and inorganic chemicals.

Capital spending will be up, according to a survey of industry managers by McGraw-Hill Economics. A 13.3 percent rise in investment is forecast, with the strongest gains coming in industrial chemicals and synthetic fibers, where spending will be up an eye-popping 26 percent.

Petrochemical subsidiaries of oil refineries, however, are gloomy. The subsidiaries plan to spend 35 percent less than last year.

Paint and coatings sales will be up 25 percent, according to the survey, and a 20 percent gain in sales is forecast by makers of soaps, toiletries and cosmetics.

But fertilizer and pesticide producers are bearish compared with the rest of the industry, with sales expected to be up only 4 percent.

—Peter A. Holmes

Slow Growth For Metals

For steel, aluminum and copper producers, 1985 looks promising—if only because 1984 was a disaster. Industry analysts and company executives predict that product prices and profit margins will improve in 1985.

How much prices will firm up can only be guessed, analysts say, but producers are counting on a strong economy and fatter order books to spread their high fixed costs over a larger volume of business.

Last year many steel products sold at below 1981 book prices. Copper cathode fetched the lowest real prices recorded this century; the price of aluminum ingots plunged more than 40 percent in nine months.

Donald Trautlein, chairman of Bethlehem Steel Corporation, sees domestic steel consumption reaching 98 to 100 million tons—about a 6 percent gain over last year. He says prices could move up about 5 percent this year, and if they do, the industry "could end up with a reasonable profit."

Steel imports captured more than a quarter of the domestic market last year. Trautlein expects that the Reagan administration will make good on its pledge to negotiate voluntary trade restraint agreements with a dozen or so steel exporting nations. Those agreements could boost domestic shipments 6 million tons, an amount Trautlein calls "extremely critical to the health of the industry."

Contributing to the industry's woes is a strong dollar that, he says, gives a price advantage to foreign mills on top of the government subsidies many receive.

The industry is trying to counter foreign competition with increased labor productivity. The number of white collar jobs at Bethlehem, for example, has been reduced 30 percent in three years.

Future technological innovations are not expected to result in drastic improvements in productivity anytime this century, Trautlein says.

But one hopeful sign is the trend toward smaller materials inventories. That may help domestic producers, he says, because supplying a customer from a mill 400 miles from the factory gate, as opposed to 4,000 miles, is one way to make sure customers' orders arrive when needed.

The hard-pressed copper industry has shuttered about 45 percent of its capacity. Prices are so low that many domestic mines are uneconomic to operate. But, says Richard Osborne, president of ASARCO, a major New York-based copper producer, "there is reason to expect that supply and demand may come into balance this year," even if not at a price that would allow a major reopening of mines.

Demand for copper is strong (housing, autos, communications and electrical power generating equipment are the biggest consumers). Copper stockpiles shrank by nearly half last year, although, Osborne says, "they are still twice as large as they should be."

In aluminum, too, weak prices are the bane of the industry. Aluminum prices collapsed last year, falling from 72 cents a pound in January to 44 cents in September.

Peter Merner, an industry analyst with Merner Research in New York, says that aluminum prices could recover this year, to between 66 and 70 cents, depending upon current stockpiles—nobody knows their size for sure—and the strength of the economy.

—Peter A. Holmes

More Slices in a Bigger Pie

THE HOME OF THE Kosher Burrito is the name of a restaurant that symbolizes the volatile cosmopolitan marketplace that is Los Angeles. A year and a half ago, the two-decades-old eatery was bought by a Korean couple, Jean and Kenny Han.

Los Angeles epitomizes the United States, where marketing professionals are stepping up efforts to "segment" the market—to go after smaller, more sharply defined sets of customers.

For example, at last count, there were more than 26 million blacks, 1.5 million American Indians, 3.5 million Asians and 14.6 million Hispanics in the United States. Though they may be concentrated geographically now, they are dispersing more and more throughout the country, U.S. Census Bureau Director John G. Keane says.

This means advertisers and marketers elsewhere must grapple with what is already a fact of life for Los Angeles County—"perhaps the most ethnically diverse county in the United States," says Keane. Nearly 90 different languages are spoken in Southern California.

Multilingual advertising and services are not enough, however. For example, "Though Hispanics share a common language," says Keane, "the customs of Cubans, Puerto Ricans and Mexicans can be very different." And the ethnic market is just one area where segmentation is being refined. Marketing specialists see, for example, further segmentation within the women's market and the older market.

If reaching the customer is becoming more complex, technology will help, says Stephen W. Brown, president of the American Marketing Association and professor of marketing at Arizona State University. "We now have the means to reach very narrowly defined customer groups through such things as specialized cable networks and magazines," says Brown.

Despite the complexities that face them, advertising industry executives see a very good year ahead. However, 1983 and 1984 have been so good for the industry that 1985 may look "a little bit anticlimactic," according to Robert J. Coen, senior vice president and director of forecasting for McCann-Erickson.

U.S. advertising expenditures for 1984 are estimated at $87 billion, up from $75.9 billion in 1983. Coen thinks 1985 expenditures will continue to outpace the rest of the economy, rising another 10 percent if the economy holds up. Newspapers are expected to get $26 billion of the 1985 advertising dollars, followed by television at $20 billion.

Direct mail rose more than 14 percent from $11.8 billion in 1983 to an estimated $13.5 billion in 1984. John O'Toole, chairman of Foote, Cone & Belding as well as the American Association of Advertising Agencies, calls direct response "the fastest growing aspect of marketing communications."

ALSO EXPECTED to increase in 1985—although a strong U.S. dollar could hamper growth—is the overseas advertising market. "Advertising is one of the more successful U.S. exports," says O'Toole. One reason overseas billings are moving up, says Coen, is that foreign economies are improving.

"Many advertisers are finding it very difficult to afford the kind of television schedules they used to have on the networks," says O'Toole. "They are turning to cable, and we're including consideration of cable now in all of our media proposals to television advertisers."

Coen says high network prices also mean we will be seeing more "split-30" commercials. These enable an advertiser to put two brands together in one 30-second network commercial.

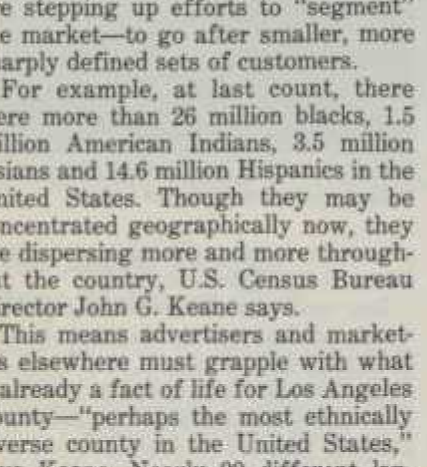
Brown foresees continued growth in marketing in the services industries, including telecommunications, financial services, health care and transportation. Coen expects continued strong advertising for computers and utilities—especially telephone companies—in 1985. And in the area of business-to-business advertising, O'Toole projects an emphasis on all kinds of office equipment.

Karen S. Kennedy, president of KSK Communications, Ltd., which specializes in business-to-business marketing, sees a rapid increase in telemarketing. Though her McLean, Va., firm is a just a little more than 1½ years old, Kennedy, too, is optimistic about 1985. She expects billings to grow from $5 million to $8 million, and has just moved her company into larger quarters and introduced a new computer system.

"We wouldn't do that without a whole lot of confidence," she says.

—Sharon Nelton

PHOTO: PETER MORTIMER—LIAISON



Marketers have new means of reaching narrowly defined customer groups, says Arizona State's Stephen W. Brown.

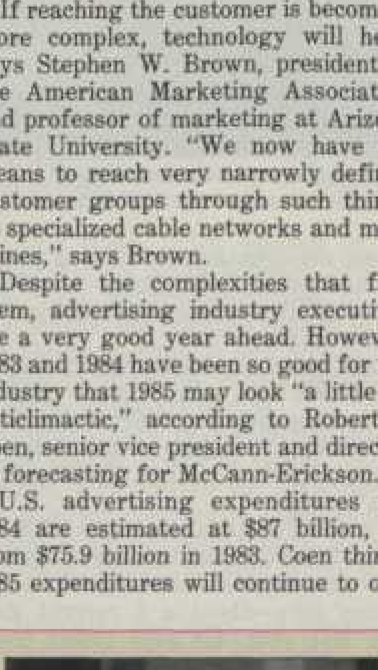


PHOTO: T. MICHAEL KEZA

Many advertisers want alternatives to costly network television time, observes John O'Toole of Foote, Cone & Belding.

Cutting Back on Controls?

THIS COULD BE the year American agriculture—the nation's largest economic sector—finally returns to the free market system.

It depends on the outcome of a clash over the proposed 1985 farm bill. Under challenge in Congress is a half-century-old system of government controls that costs taxpayers billions annually in bailouts, shields unproductive (but politically powerful) farmers and denies efficient farmers huge market opportunities overseas.

Farmers who prefer controls argue that the government must keep unpredictable cycles of weather and world economics from harming them. Farmers who want to increase their exports say controls actually dampen the farm economy by distorting the market with bloated prices the government must underwrite.

Not since the Great Depresssion have nonfarm food industries become so involved in a farm bill debate. The cry is for less government domination of price and production.

"The retail food industry," says Safeway Stores' Chairman Peter Magowan, "sees itself as the buying agent for the general public. We think the public will get the greatest benefit if the farm industry is allowed to be as competitive as it can."

American agriculture decades ago moved beyond just feeding the nation.

Its global reach indirectly affects 22 million jobs in industries from manufacturers of chemical fertilizers to those that warehouse and transport commodities.

Robert Delano,, who farms 400 acres in Richmond County, Va., and also administers the American Farm Bureau Federation, says this year will be an improvement over last in farm and food industry income.

"With inflation down, farm expenses are not increasing as fast," says Delano. "Energy deregulation has pushed down prices. Still, farmers have the interest rate problem. Interest is the biggest cost for the farmer."

The overvalued dollar both discourages exports and makes it more expensive for farmers to borrow for production. Delano says Congress must be pressured to melt the deficit and curb spending.

PHOTO: RICK BROWNE—PICTURE GROUP

Safeway's Peter Magowan: Better times are ahead for food retailers.

Farmers' leader Robert Delano: Federal deficits should be cut.

PHOTO: DAVID WOODDELL

Farmers will face cash flow stress, say government analysts. More acreage is being brought into production, increasing costs. Bankers are under pressure to lower credit limits to marginal borrowers. Some highly leveraged farmers could be forced out of business.

Across rural America, debt-to-asset ratios are climbing, returns on farm equity are dropping.

STILL, SAYS Delano, farmers are beginning to feel the effects of economic recovery and are coming out of the past several rough years. "Productivity continues to rise and technological improvements continue," he says, giving American farmers "a competitive position in world markets."

Greater productivity will mean increased orders for fertilizers, equipment, pesticides and all the other supplies needed to plant and harvest.

Post-harvest agribusinesses, like food processing and retail, are subject to influences other than those affecting farms. The outlook for them is stable employment and sales, but also internal changes.

James Ferguson, chairman of General Foods, says food processing companies are somewhat insulated from the ups and downs of the farm economy because their products are value-added. "In terms of price and supply, the outlook is one of reasonable stability," says Ferguson. He foresees no radical changes in grocery store prices.

Ferguson says consumers are dictating new directions to the industry. Many Americans are eating less red meat, for example. That has led General Foods to step up production of processed turkey meat.

Safeway's Magowan, who is "guardedly optimistic" about his industry this year, says the shift toward fresh fruit and vegetable diets is more profitable for retailers since produce profit margins are better. He says growth in the 25-to-44 age group means expansion in grocery purchases overall.

Still, he says, competition is fierce, as bargain warehouse stores pressure retail supermarket chains. "Convenience stores and restaurants and takeouts are doing well. And we are seeing a trend of people eating less."

—Henry Eason

Operating on High Costs

PHOTO: ROGER TULLY—BLACK STAR

PHOTO: KEN TOUCHTON

PHOTO: CHRISTOPHER KEANE

Pharmaceuticals will benefit from efforts to keep health care costs down, because drugs offer cheaper therapy.

Jack Owen (left) and Ralph J. Eckert predict a year of changes for hospitals and insurance companies.

AMERICANS spent nearly $400 billion, more than 10 percent of the gross national product, on health care last year. In 1985, the health care industry, which employs almost 6 million people, will face changes in products, more competition and a restructured payment system, all spurred by high costs.

Health costs in recent years have been increasing faster than any other component of the consumer price index, and they will be the focus of keen attention this year from employers, government and the insurance industry.

Cost increases have begun to moderate. Hospital expenditures increased only 5 percent last year, compared with 10 to 15 percent a year in the previous decade. "Clearly this is good news for business and for the Medicare program," says Alex McMahon, president of the American Hospital Association.

Changes in the Medicare payment system for hospitals in 1984 reduced patient admissions and shortened the average length of a stay.

There have been other changes. "Hospitals are no longer inpatient-only institutions," says Jack Owen, executive vice president of the American Hospital Association. "Many are becoming leaders in supplying lower-cost alternatives like ambulatory care, one-day surgery and home care, when medically appropriate."

Owen predicts more hospitals, both investor-owned and nonprofit, will link up with other hospitals to form multiunit systems. Hospitals will also form more business alliances with insurance companies, says Michael D. Bromberg, executive director of the Federation of American Hospitals.

The 1,200 investor-owned hospitals represented by the federation saw revenues and profits increase last year, and they expect further increases this year.

Ralph J. Eckert, chairman and chief executive officer of Benefit Trust Life Corporation and chairman of the Hospital Insurance Association of America, says, "Hospitals are now coming to us [to direct patients to them], which we've never seen before." He expects to see more insurance written with fixed prices for specific operations and lower charges for patients who use cooperating physicians or hospitals.

Group health insurance, Eckert says, will continue to be profitable despite inroads by the growing number of health maintenance organizations, which offer prepaid care using salaried doctors and their own hospitals.

The hospital and insurance industries together supported the government's prospective pricing system for Medicare. But they are divided on proposals to apply such a system to all hospital payments. The insurers want to stop hospitals from shifting costs from Medicare patients to private patients and their insurance companies.

COST CONTAINMENT appeals to the pharmaceutical industry. "We support all the administration's efforts at reducing the deficit and cutting the rate of spending increases," says Joseph D. Williams, president of Warner-Lambert Corporation.

"If you look at the cost containment equation, drugs are the most effective part of health care cost. Drugs keep people out of the hospital; drugs help shorten their stay. Yet drugs make up a very small percentage of the cost."

Williams expects pharmaceutical company earnings to grow 8 to 11 percent this year. The figure depends largely on the dollar's fluctuations, because 40 percent of the U.S. industry's sales are in other countries.

A new study of health care trends by Arthur Andersen & Company and the American College of Hospital Administrators predicts that in 10 years the cost of health care will rise to 12 percent of GNP, that investor-owned hospitals will hold a 60 percent market share and that physicians' income levels and job satisfaction will decline.

All those trends—rising costs, growth of privately owned hospital conglomerates and increasing pressure on doctors to enter some kind of institutional practice—are expected to be evident during 1985, along with a shift toward more governmental regulation of the entire health care industry.

—Harry Bacas

Steady Growth to a Record

CONSTRUCTION activity in 1984 set a record of $211 billion, if projections hold. Construction begun in 1984 should assure another record year in 1985.

The current building cycle has, however, lost some of its earlier drive and is being kept alive by nonresidential building rather than housing construction.

Investment capital from a wide range of sources will continue to pour into construction, according to the Real Estate Research Corporation. The sources include mortgage investment by pension funds, real estate lending by commercial banks, mortgage-backed securities, and less active but still significant foreign investment.

New home construction in 1985 will lack some of the zippiness of 1984, predict most housing economists. They expect housing starts to range from 1.5 million to 1.6 million, compared with 1.75 million units in 1984. They warn, though, that if the runaway deficit is not reined in, housing could be in serious trouble as early as the second half of 1985.

Prospective home buyers should not look forward to any drastic dips in interest rates. The average of both fixed and adjustable rate mortgages, which could easily rise above 1984's 14 percent, may ease slightly to around 13.5 percent by the fourth quarter of this year, says George Christie, senior vice president and chief economist at McGraw-Hill Information Systems Company.

Christie takes a more optimistic view of housing's future than most of his fellow economists, forecasting "retreating interest rates during 1985, with housing starts being weakest at the beginning of the year and picking up strength in the second half—the opposite of 1984's quarterly pattern."

High prices will continue to dog new home sales. By the fourth quarter of this year, the median new single-family home price is likely to increase 5.5 percent, to $85,700, according to the National Association of Realtors, while the median cost of a resale home will be $76,400, a 4 percent jump. Existing home sales should total 2.4 million, down 440,000 from 1984.

What will keep housing alive and affordable this year are less expensive condominiums and the adjustable rate mortgage.

Home builder Charles E. Peck, chairman of the Ryland Group, says there is a long-term evolution toward more factory-fabricated components, like door frames and wall panels, in home building. Although houses will be smaller and on smaller lots, they will be better built and more individualized, with touches like cathedral ceilings and big windows, Peck says.

PHOTOS: T. MICHAEL KEZA

Ryland Group's Charles Peck sees more prebuilt parts for houses.

Office building is vigorous but should be slowing a bit.

Home builders are expected to become increasingly flexible so they can remain profitable whatever the prevailing local economic conditions. Some will stick to home building and mortgage financing, but others will try their hands at apartment and commercial building, industrial projects and land development.

Housing construction may be dealt a blow if Congress decides to put a cap on the income tax deductibility of mortgage interest by prohibiting a deduction on second homes, vacation homes or homes whose worth exceeds a stipulated maximum.

The building materials industry should be stable in 1985. Lumber and plywood production may slow because starts of houses with large amounts of wood are expected to decline 18 percent. But manufacturers and suppliers of building materials should get a boost from a surge of industrial building, commercial expansion and an exploding do-it-yourself market.

Office building should be winding down. On a boom course since 1980, office construction got a substantial boost from the 1981 Economic Recovery Tax Act, which offered developers accelerated depreciation and enabled them to sustain a higher vacancy rate than they could have under the old laws. Says McGraw-Hill's Christie: "Unless someone yanks this tax shelter out from under the market, it provides a nice parachute, making for a soft landing rather than a crash."

Industrial construction is expected to be up about 16 percent as manufacturers expand, modernize and relocate their plant facilities to prepare for more markets and intensified competition in the second half of the decade. And institutional building is likely to be on an upward spiral this year.

—Mary-Margaret Wantuck

Strength Through Special Handling

For Jim Oden of Northwest Orient, and for others in the air freight business, 1985 looks like a good year...

... But William A. Creelman of National Marine Services sees no end in sight for the barge industry's troubles.

A HUGE ELEVATOR lifted cage after cage of rhinos, tigers, leopards, llamas—more than 250 animals from a Texas wildlife park—into the cargo bay of the Northwest Orient Airlines 747. Soon they would be airborne, on their way to a zoo in Korea.

The aircraft's massive nose, which lifts skyward to permit loading in the plane's belly, nestled into place, and the flight was aloft.

"That wasn't our normal cargo," says Jim Oden, director of cargo sales at Northwest Orient. Most air freight comes in much smaller packages. Computer hardware, pharaceuticals, scientific instruments, and textiles are the more routine cargo for Northwest Orient, Flying Tigers and the others in the air freight business.

For that industry, which also includes carriers (like Federal Express and Purolator) that specialize in small, time-sensitive packages, 1984 was a record year, with sales estimated at $5 billion. "We expect to show a further increase in 1985 if the economy holds," says Daniel Z. Henkin, an Air Transport Association vice president.

For truckers, 1984 also was an outstanding year, and the outlook for 1985 is continued strong.

Final 1984 figures are expected to show major trucking companies had $52.1 billion in gross revenue, up 12 percent over 1983. As for this year, says Lana R. Batts, American Trucking Associations vice president for policy, "if the economy is up, our numbers are going to be up. But if the economy is flat, we will be flat."

Partial deregulation of the trucking industry in 1980 has stepped up competition, forcing economies and increased efficiency. Last year, a new law authorized truckers to run wider, heavier and longer vehicles, including twin trailers. Thus, operating efficiency has been further improved.

Many major companies, such as Yellow Freight System, headquartered in Overland Park, Kans., have been forced to concentrate on less-than-truckload shipments, which they once disdained, leaving much of the truckload business to independent, nonunion carriers with bargain prices.

Steve Murphy, the firm's senior vice president and general counsel, says a major concern for 1985 is the master freight agreement with the International Brotherhood of Teamsters, which expires March 31.

The ATA hopes to get Congress to rectify what it considers an unfair tax advantage for railroad competitors. Batts claims trucking companies today pay "the highest effective tax rate of any U.S. industry," with 40 percent of net income going to taxes.

Railroads, Batts says, pay about 2 percent. "We cannot compete with an industry that is not paying its fair share," she says.

However, Charles N. Marshall, Consolidated Rail Corporation marketing vice president, argues that railroads already pay a hefty tax share, including real estate taxes. Congressional approval of larger trucks gives motor carriers an added advantage, he says.

The Association of American Railroads is making a major effort to develop a high-productivity train to more efficiently haul bulk products, such as grain and coal, and provide piggyback service—carrying truck trailers on flatcars. A prototype is being designed at AAR's test center in Pueblo, Colo., and should be ready to test late in 1985.

THE FUTURE FOR the nation's barge industry, however, seems less than bright. "This industry is in a deep depression, and we're not recovering," says Jeffrey A. Smith, an American Waterways Operators Association vice president.

The Soviet grain embargo, an overbuilt barge fleet and poor coal and grain markets have combined to make times difficult. Today, says Smith, fully a third of the nation's barge fleet is on the banks. The industry is hoping Congress will improve locks and dams along the nation's waterways.

"We don't have any particular reason to expect things to be a great deal better in 1985 than in the past few years," says William A. Creelman, president of National Marine Services, Inc., of St. Louis. "Our industry is in serious trouble."

—Bob Gatty

Capturing Diverse Markets

NESTLED IN THE northern Virginia countryside a short drive south of Washington, a new shopping mall is emerging under the hands of carpenters and masons bringing to life the plans of developer Herbert Miller.

Scheduled for opening in April, the Washington Outlet Mall takes advantage of a growing retailing phenomenon—buying a brand name product at a discount.

Discount malls are among the variety of ways the retail industry will be meeting the demands of differing consumer groups in 1985. Commerce Department analysts predict gains of from 9 to 10 percent in retail overall for the year.

The mall, a 1.2 million-square-foot enclosed complex, will be devoted to off-price stores. There will be specialty stores and factory direct stores, all offering top grade products for less than traditional department stores or specialty stores.

"We'll give the best values," says Miller, chairman of Washington-based Western Development Corporation. "We're beating the department stores at their own game. We don't need the major malls anymore."

Traditionally, discount outlets have sprung up near the major shopping complexes or department stores, relying on them as the primary customer draw. An outlet mall brings discounters together in one major unit offering pleasant surroundings and amenities that allows them to attract enough customers to prosper from volume sales.

"This is one of the most exciting innovations in retailing," says Miller. "It's the maturing of off-price."

Miller's company developed Washington's posh and pricey Georgetown Park as well as a number of off-price shopping malls elsewhere.

He says the maturing of the baby boom generation has resulted in the largest group of well-educated consumers in the world. They, he contends, are acutely aware of price, yet demand high quality status goods and a pleasant environment.

"A new group of merchants has arisen to offer better quality goods at lower prices," Miller observes. They do it by avoiding high overhead and cutting better deals with vendors, sometimes by paying cash for merchandise.

PHOTO: T. MICHAEL KEZA

Off-price stores are attracting customers who want quality at a low price, says Herbert Miller...

PHOTO: DICK LURIA—FOLIO

...While traditional department stores try to focus on customers for whom time is as important as price.

Obviously, this phenomenon poses a challenge to the traditional retailer and to department store discounters, including those that operate catalog showroom outlets. "The bloom is off the rose," says Andrew Lewis, chairman of Best & Company, the Richmond, Va., catalog showroom discount chain. Although he recognizes the off-pricers' emergence as a significant force, he says fewer new entrants will move into that arena as conventional retailers become more competitive.

TRADITIONAL DEPARTMENT stores are also changing their approach. "We used to try to be all things to all people, but that is not appropriate anymore," says Phyllis Sewell, senior vice president for marketing and research for Federated Department Stores, the nation's No. 4 retailer. "We are trying to focus on the moderate and better customers who put price as only a piece of the equation."

Though off-pricers and discount department stores are estimated by the Association of General Merchandise Chains to have captured upward of 20 percent of the retail market, Sewell says traditional department stores, such as Federated's Bloomingdale's and Abraham & Strauss, are holding their own.

"We have learned to play the game when needed," she says. "We offer a more pleasing shopping environment to customers, more selections, first quality goods, and reasonable prices. A customer knows what she'll find, and that's important to working people who have less time for shopping."

The association's president, Edward T. Borda, estimates that 1985 will bring sales gains of 10 percent or more for the nation's top "price competitive" retailers. Lewis is more cautious, projecting gains of from 1 to 2 percent. Overall, retail sales for 1984 are expected to be up about 12 percent over 1983 when final figures are tallied, and Commerce Department analysts look for further increases of about 10 percent in 1985.

Industry analysts expect falling interest rates to be reflected in increased sales of home furnishings, floor materials and finishings, and they may also help boost sales of major appliances.

"The home entertainment field is very exciting," says Federated's Sewell. "New products are driving that business, and I expect it will continue to be strong. Sales of videocassette recorders are accelerating, and the introduction of stereo in televisions will be another big item."

Competition in retailing will probably grow even more intense, giving birth to new ways of attracting—and keeping—customers. "It is definitely survival of the fittest," says Sewell.

—Bob Gatty

Running in Place

AMERICANS' GROWING concern for their personal fitness will spark the liveliest activity this year for companies that provide sports, camping and recreational equipment.

In the $14 billion sports equipment industry, sales of fitness paraphernalia reached $1 billion in 1983 and nearly $1.3 billion last year. They are expected to approach $1.5 billion in 1985.

"The fitness market has been expanding as the price of equipment has been dropping," says Robert S. Boyer, president of the Doak Walker Sports Center in Dallas and chairman of the National Sporting Goods Association, a retailer group. He says that "home gyms are available for $200 to $300, rowing machines are as low as $100 and stationary exercise cycles range from $80 to $300. At these prices, it is less expensive to buy equipment than to take out membership in a health or fitness club." Exercise machines increasingly are equipped with electronic digital readouts showing the body's work load, heart rate and calories burned.

Howard J. Bruns, president of the Sporting Goods Manufacturers Association, agrees that "fitness hardware will continue strong" in 1985 because of more home use, growing corporate sports programs, and increasing emphasis by doctors, teachers and psychiatrists on the values of fitness.

For the industry as a whole, Bruns predicts a leveling out in 1985. Soft goods will be more affected than hard goods. Sales of aerobic dancing shoes and basketball shoes have accelerated, but running shoe sales have dropped off as faddists have left jogging to serious runners. Bruns says sales of "the more stylish softwear clothing worn to clubs and public gyms" have peaked.

PHOTO: LEN KAUFMAN

Running has peaked but other sports and fitness activities will keep the leisure equipment industry growing modestly in 1985, says Howard J. Bruns.

After hitting bottom in 1980, when sales dropped 4 percent and profitability sank to 1.5 percent of sales, the industry picked itself off the floor and improved steadily until 1983, when, with a big boost from pre-Olympics publicity, sales grew 13.8 percent and return on sales hit a record 6 percent.

In 1984, sales growth was a more modest 5 percent after inflation, and profits dropped to 4.8 percent. For 1985, Bruns predicts sales growth of 4 to 6 percent but a drop in profits to 4.5 percent.

Bruns also predicts that in 1985 for the first time almost half of the sports products consumed by the U.S. market will be imported. The figure was 45 percent last year.

At this rate, Bruns says, "we will all but lose domestic production by the year 2000."

Many U.S. manufacturers are importing under their own trade names. Recent legislation and private initiatives against trademark pirating and product counterfeiting are expected to help protect company rights.

James J. Hayes, executive director of the Bicycle Manufacturers Association, blames the strong dollar and inequitable trade laws for the rising flood of imported bicycles.

Of the 9.6 million bicycles sold in this country in 1984, 5.9 million were U.S.-made and 3.7 million were made abroad, 74 percent of them in Taiwan. "If we sell a bike in Taiwan," Hayes says, "it carries a 35 percent tariff. But they sell their bikes here for a 5.5 percent to 11 percent U.S. duty."

BICYCLING, with 78 million participants, is topped only by swimming (95 million) and general exercise (88 million) in a recent recreational census by the National Family Opinion research group and *Sporting Goods Dealer* magazine. Campers numbered 52 million, fishermen 49 million, bowlers 43 million and runners 40 million.

The only spectator sports with comparable figures are baseball, 78 million; horse racing, 75 million; and auto racing, 55 million. And the spectator figures are ticket sales that count repeat attendance.

Bruns believes future growth in the industry will come from the spread of senior citizen sports programs, swelling school enrollment as the baby boom "echo" takes hold, increases in doctors' prescribing fitness programs as an alternative to drugs, smoking and alcohol consumption, and corporate endorsement of individual and employe team sports.

The new sales impetus will come not from increased disposable income and leisure time, Bruns says, but from "a shift of disposable income into this industry and a shift of leisure time pursuits to more vigorous activities."

—Harry Bacas

Competition Helps Travel Industry

THE TRAVEL INDUSTRY faces intense competition fostered by an improving economy and increased customer demands for more amenities.

Hotel and motel occupancy rates are expected to increase 2 or 3 percent in 1985 and room rates, now averaging $56.44, should increase 5 or 6 percent, says Robert Moore, director of marketing for Hilton hotels. Final 1984 figures are not in, but occupancy and room rate increases for the year are believed to have been at about those levels.

Lodging sales were expected to total $33 billion in 1984 and rise to $36.4 billion in 1985.

Many hotel and motel companies are developing different types of hotels to serve differing markets, each with its own standard of amenities and service.

Charles Lieberman, senior economist for Shearson, Lehman/American Express, expects growth of from 5 to 7 percent in airline activity over the next several years to generate increased demand for hotel and motel space.

Within the airline industry, intense competition spawned by deregulation has resulted in phenomenal growth of no-frills, low-fare airlines.

The result, Lieberman says, will be intermittent, but "occasionally extremely intense," fare wars and added flights as leisure travel rises and no-frills operators gain market share.

This, however, could also bring more problems of another kind—safety.

A.B. "Sky" Magary, Republic Airlines senior vice president of marketing, says congestion in the skies is a growing problem. "The staffing and training of air controllers is still deficient, and the operating capability of the air traffic control system still lags behind its performance before the PATCO strike in 1981," he says.

He says the airlines will experience 6.5 percent in growth when 1984 figures are finalized, and 2.8 percent in 1985 as the economy's expansion slows.

The outlook for other segments of the travel industry is also generally bright.

America's 23,000 travel agencies did $43.7 billion in sales last year. The new year brings an end to the antitrust immunity they have held as the sole nonairline sellers of airline tickets, thus providing new competition from corporate travel departments and others. "We're working now to educate our members on what to expect in this new competitive atmosphere," says Beth Bateman Musto, manager of public relations for the American Society of Travel Agents.

PHOTO: T. MICHAEL KEZA

PHOTO: T. MICHAEL KEZA

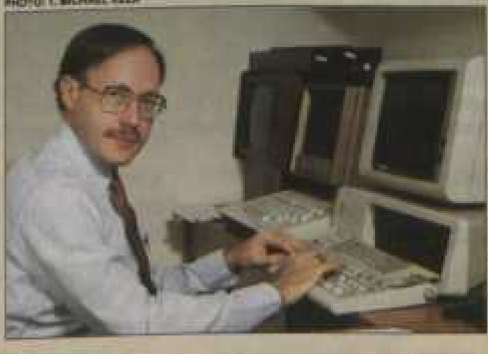


PHOTO: STEVE WOIT—PICTURE GROUP

An improving economy means more business travel and a good year for hotels and airlines. But competition will be intense in both industries, say Charles Lieberman (left) and A.B. Magary.

The ground transportation industry is looking at 1985 with cautious optimism. Robert E. Gall, vice president of transportation marketing at Amtrak, predicts that rail passenger miles will increase 5.9 percent in 1985 and revenues 14 percent.

Richard G. Robertson, associate administrator of the Federal Highway Administration, says continued improvements in the economy and the nation's highways, combined with stable fuel prices and more fuel-efficient vehicles, should bring increases in auto travel to all parts of the country, good news for rental car companies. He predicts the East will experience a 3.1 percent increase, the Central States a 5.8 percent jump and the West a 5.4 percent gain.

Harold Morgan, director of research for the American Bus Association, says 1984 was not a particularly good year. Both ridership and revenues from scheduled service were down, though charter and tour ridership was slightly ahead of 1983. The outlook for 1985, he adds, is somewhat better, but he points out that deregulation means more competition.

FOOD SERVICE sales were expected to reach $164.5 billion in 1984, with travel-related food service—airline, rail and hotel food sales—seen as the big leader in future growth. In 1985, that figure is expected to reach $178 billion.

Cruise ships carried 1.6 million American passengers in 1983, and were expected to top the 2 million mark in 1984 and 2.2 million in 1985.

The 30 major theme parks in the United States drew an estimated 95 million day visitors in 1984, and forecasters see an increase of 5 to 7 percent in 1985.

Overall, observers are convinced that if the economy stays healthy enough, the nation's travel industry will continue to improve. "I think we have cause for optimism," says one key industry analyst. "We can look forward to increasing sales growth."

—Bob Gatty

Government Can Help—or Hurt

THE EXTENT TO which government actions will affect the 1985 economy, for better or for worse, represents one of the largest imponderables in business planning for the new year.

President Reagan and Congress will be making decisions that will have a major impact in such key areas of business concern as economic growth, interest rates, inflation levels, availability of capital, investment incentives and import levels. The forum for these decisions will be congressional consideration of the President's sweeping proposals for a massive reduction, via budget cuts, in the size of the federal government.

Leading the GOP in Congress are House Minority Leader Robert Michel (Ill.) and Senate Majority Leader Robert Dole (Kans.).

There is general agreement between the President and Congress, as both prepare to begin new terms, that there should be no continuation of the gigantic federal deficits of recent years—that deficit reduction is critical to continued economic growth.

But how the reduction will be carried out will be the subject of intense debate, as the lawmakers begin dealing with details of fiscal legislation.

President Reagan's plan calls for gradual but sharp cuts in the deficit through economic growth and extensive reductions in federal spending. The President has ruled out tax increases as a deficit-cutting device. He underlined that decision in declaring to a recent cabinet meeting that he would adhere to a policy of continued growth "with no tax increase—and I underline, no tax increase."

But there are Capitol Hill forces, centered in the Democratic-controlled House of Representatives, that argue that the President's plan for cutting $42 billion out of the 1985-86 federal budget and larger amounts in succeeding years is unacceptable. They call for preserving spending levels of social programs that the President would cut and for turning to tax increases to reduce the deficit.

Reagan comes into the fray in a powerful position, fresh from one of the most sweeping political victories in American history. He triumphed after a campaign in which his opponent offered higher taxes as a way to cut red-ink spending, while Reagan insisted that spending cuts and economic growth would achieve the same result.

Republicans held onto control of the Senate in the election, and the newly elected majority leader, Robert Dole of Kansas, is expected to bring a new sense of aggressiveness to the fight for the Reagan program on Capitol Hill. Dole and House Minority Leader Robert Michel of Illinois have given their general agreement to the President's plan.

Opponents of tax increases as a means of cutting the deficit argue that the increases would have the opposite effect from the one intended. By draining resources out of the private sector, the opponents say, higher taxes would slow the economy to the point where it could not generate as much revenue for Washington as it does now.

Advocates of tax increases maintain, on the other hand, that it is unrealistic to assume that all the budget cuts the President proposes will be acceptable to Congress. Eventually, they say, there will be a money gap that can be filled only with higher revenues.

ONE OF THE principal strategies of the Reagan forces in the budget debate will be an attempt to put members of Congress in a position where they have to cast one vote for all the proposed spending cuts. This would deny members who are so inclined the opportunity to preserve pet spending projects while striking an overall posture of fiscal restraint.

A group of conservative House Republicans led by Rep. Newt Gingrich of Georgia has proposed, in fact, that a single, clear-cut vote on spending be scheduled for April 15, the deadline for income tax returns.

In addition to fiscal issues that will have a major impact on the economy, Congress will be dealing with a wide range of regulatory concerns. The Reagan administration is expected to renew its drive, which slowed in the President's first term, for major regulatory reforms that would carry out his pledge to "get the government off the backs of the people."

But it will be the outcome of the battle over spending cuts vs. tax increases that will determine more than any other development in Washington the degree of government impact on the 1985 economy.

—Peter A. Holmes

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2 Will Your Firm Match GNP Growth?

Growth is a key to business success. Companies that fail to move ahead often fail altogether. One measure of progress for the whole economy is the gross national product, the total value of goods and services produced during the year. U.S. Chamber of Commerce economists predict 1985 GNP real growth at 4.5 percent—8 percent including inflation—thus a yardstick for company revenue growth. Do you expect your company's revenues to grow 8 percent or more in 1985?

3 Clearinghouse For Health Care Information?

Along with progress in medical care has come a steep increase in costs. To encourage "comparison shopping" for health care, Rep. Ronald L. Wyden (D-Ore.) has introduced legislation providing for a federal clearinghouse to help businesses and others collect information about hospital and doctor costs. Opponents say the estimated $500,000 annual expense would be a waste of taxpayers' money. Should the government aid groups comparing cost data?

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More than 2,200 readers responded to the questions in the November issue's Where I Stand poll. Results of each month's poll go to appropriate decision makers in the White House, Congress and the regulatory agencies.

	Yes	No	Undecided
1 Should the United States adopt a national lottery?	45%	51%	4%
2 Should the homeless be allowed to vote?	22.2%	71.0%	6.8%
3 Are honor codes obsolete?	20.1%	70.9%	9%

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Making the Most Of Leverage

Buyouts offer many advantages, but there are some stiff requirements.

By Mary-Margaret Wantuck

An LBO catapulted Henry Timnick from group vice president at Mead Paper's Stanley Interiors, a furniture maker, to chairman and CEO of an independent Stanley. Only starvation would entice him back to a corporation, he says.

IN APRIL, 1979, Henry O. Timnick was group president of Stanley Interiors Corporation, a division of Mead Corporation, the giant paper manufacturer.

By November Timnick had become chairman and chief executive officer of a newly independent Stanley Interiors, a Stanleytown, Va., firm that makes furniture, custom draperies and bedspreads and sells cut fabrics to decorators.

Timnick had always dreamed of owning his own company. When Mead decided to shed Stanley, Timnick and a handful of Stanley's other top managers knew they could not pass up that opportunity to buy the business and become entrepreneurs. The purchase price of $50 million was a great deal more than Timnick and his partners could raise on their own. But a financing mechanism known as the leveraged buyout made Timnick's dream a reality.

A leveraged buyout works this way: A group of managers and institutional investors (pension funds and insurance companies) put up part of the money to buy a private or public company or one of its subsidiaries or divisions. The business' assets are pledged as collateral for a loan—generally provided by one or more banks—that makes up the balance of the purchase price. Cash flow the business generates is used to repay the debt. As the debt declines, the value of the investors' and managers' equity increases.

Leveraged buyouts have been around for more than 20 years, but recently they have enjoyed growing reputations as winning propositions for everyone concerned. Managers like Timnick, who are tired of being small fish in the large corporate ocean, see them as means of gaining entrepreneurial freedom. Investors can reap big dollars quickly (on a $1 million equity investment in Gibson Greeting Cards, Wesray Corporation netted $100 million after Gibson went public). A selling company's balance sheet can be strengthened through an infusion of buyout cash.

Arthur D. Little, a Cambridge, Mass., consulting firm, found that leveraged buyouts involved $6 billion last year, compared with $300 million in 1979. Leveraged buyouts accounted for nearly half of all the corporate acquisitions completed in 1983, compared with less than one fifth the year before.

A buyout may be simple in theory, and the rewards can be great, but the mechanics are complex. Managers or entrepreneurs who think a buyout may be just the ticket for independence or a good sale should be forewarned. Not all businesses make perfect candidates. Sales may be too small, the company too underdeveloped. Successful

buyouts require intense collaboration among a coterie of specialists—banks, investors and firms that structure and coordinate buyout deals.

"Buyouts are glamorous—they easily capture the imagination," says Joseph L. Rice III, managing partner of Clayton & Dubilier, Inc., one of a cadre of buyout firms. But, he says, "strict financial analysis must be applied to the pricing of each deal, along with good judgment."

HERE IS WHAT prospective manager-owners can expect from a buyout firm during the course of a typical leveraged buyout: First, an initial analysis is done of the company's general financial, operational and managerial profile. If results look promising, meetings are set up with management, in-depth discussions arranged, sites visited, plants toured. A positive outcome means that serious negotiations can begin on the purchase price and investment strategy. The process normally takes about six months.

Every buyout firm applies a similar list of major criteria to a candidate. A company must have a solid market niche, project sizable future growth and manufacture products that will remain competitive. Facilities must have been upgraded over the years to keep them efficient. Management must show a thorough understanding of the business and give an honest picture of the company's financial earnings history. And the purchase price asked must bear some reasonable relationship to the company's historic earnings power.

Clayton & Dubilier's Rice assigns the greatest importance to the market a company is in. Even the best management cannot resuscitate a declining market, he says.

On the other hand, M. William Benedetto, executive vice president and manager of corporate accounts at Dean Witter Reynolds, maintains that management's competence is the most critical factor—"on a scale of 1 to 10, it should be a 10."

Companies in certain industries may not pass the test. Service firms, for example, typically have few hard assets—equipment, machinery, inventories. Technology companies are also avoided, since they require taking a technological and financial risk at the same time.

Capital-intensive firms are not choice selections for CM Capital Corporation, leveraged buyout subsidiary of Carl Marks & Company, a venture capital and corporate-acquisition company. "We're now engaged in an $800 million deal where about 6 percent of the company's assets are working capital—less than one month's sales of inventories and receivables," notes President Jeffrey Kenner. "That's the kind of business we like to buy."

The companies that are generally welcomed with open arms are low technology manufacturers that can survive a recession, repay their debt on schedule and make money even in the worst of times.

Is investors' money safe in a leveraged buyout? There is no concrete pro-

"Buyouts combine the best in the American economic system: hard work, common sense and prudent risk-taking."

Joseph L. Rice III

tection, Rice points out, no guaranteed rate of return. What could be construed as a built-in safety feature for investors is that some firms specialize in buyouts in the types of business they know best. Clayton & Dubilier, for instance, focuses on management buyouts of corporate divestitures, basically because two of the principals have heavy corporate experience.

"Perhaps the investors' greatest protection is that the buyout firms are sophisticated institutions and have been in the business for a long time," says Rice. "They are able to determine what kinds of risks are associated with an extended investment program, and they will try to get the best possible average return they can. You must understand that they are allocating a very small percentage of the funds at their disposal to buyouts."

Banks financing buyouts tend to follow this same strategy. At $5 billion Fleet National Bank in Providence, R.I., leveraged buyouts take up perhaps 5 percent—$70 million—of its U.S. commercial loan portfolio.

Most banks financing buyouts are well acquainted with them and adhere to strict criteria when judging a potential deal. Companies are closely monitored until the debt is paid off.

First Wisconsin Bank of Milwaukee likes even smaller deals, of $25 million and under, in which it is the only bank financing a management buyout of a corporate division. "Divisions have better management overall than a similarly independent firm that started from square one," says Richard Bibler, the regional bank's executive vice president in charge of commercial lending. "They're used to doing capital budgeting, cash flow projections, marketing and business plans."

VALUATION OF A company may be the one major pitfall for buyout deals, say bankers, buyout firms and manager-owners. It can be a tricky process—based half on data and half on expertise and a feeling for the industry and market.

"Paying too much for a company and then being caught in a bind if interest rates go up could prove very serious," says Stanley Interiors' Timnick.

"It pays to have a thorough understanding of the business and where it will go," says CM Capital's Kenner. "There are some general guidelines. Less capitalized businesses will sell for more than highly capitalized ones. The more volatile a company, the less you pay for it. Valuation is a lot like marriage. You never really know for sure."

Fleet will stay away from deals where a company's purchase price is more than 10 times after-tax earnings. "We just don't think that going over that multiple is worth it," says Zenas Colt, vice president for leveraged buyouts. "You put too much debt on the company's balance sheet."

Leveraged buyouts should be looked at as more than purely financing tools, note financial experts. "They have meant a dramatic change in the face of corporate America," says Kenner. "You're putting ownership together with management and creating a productive, efficient, streamlined company, unlike a large corporation where the decision-making process is so fragmented and the politics so great that the result is inefficiency."

Leveraged buyouts represent a "permanent part of the U.S. business landscape," says Rice. "They combine the best in the American economic system: hard work, common sense and prudent risk-taking."

Treasury Tax Plan: Overlooked Incentives

IN HIS 1984 State of the Union message, President Reagan committed his administration to "historic [tax] reform for fairness, simplicity and incentives for growth."

He directed Treasury Secretary Donald Regan to develop "a plan for action to simplify the entire tax code, so all taxpayers, big and small, are treated more fairly."

The plan has now been produced. The President, the Treasury Secretary and the other administration officials who participated in its preparation deserve the thanks of all long-suffering taxpayers for even undertaking the herculean challenge of tax reform.

Businesses and individuals have struggled for too many years in the morass of forms, regulations and interpretations flowing from a tax code that has come to be perceived as an instrument of oppression, rather than an effective method of funding government operations.

A further problem is the extent to which the system works against the capital formation and investment essential for a growing, healthy economy.

Therefore, in assessing the Treasury Department plan, the question must be asked: Does it address the public's basic concerns about the present system?

In some respects, the tax reform proposals would move the present, overly complex system in the direction of simplicity, but in others they would further complicate it.

Perhaps the most serious question, from the business community's standpoint, is whether the proposals meet President Reagan's requirement, which he gave the Treasury Department last year, that tax reform must provide "incentives for growth."

Rather than provide such incentives, many provisions in the Treasury plan would negate the extensive progress made in 1981. Changes in depreciation and other tax laws then provided the stimulus that ended the most serious economic downturn since the Great Depression of the 1930s and put the nation on a course of noninflationary economic expansion. (See the articles beginning on page 10.)

Understandably, all taxpayers, whether businesses or individuals, are analyzing the tax plan in terms of how their own returns would be affected. They are making their views known to the White House and to Congress.

That is a healthy thing. The grass-roots reaction will have an important impact on the extent to which the President modifies the Treasury plan before submitting it to Congress and on how the lawmakers will deal with his submission.

Before trying to sort out the vast number of comments from groups that would be affected in different ways by the simplification plan's complex details, framers of tax policy would do well to begin with the fundamentals of genuine tax reform.

THOSE FUNDAMENTALS have been set forth by President Reagan, not only in his tax reform directive to the Treasury Department last year, but also in his historic 1981 economic growth plan, which triggered the recovery. The President said then:

"It's time to create new jobs, to build and rebuild industry, and to give the American people room to do what they do best. And that can only be done with a tax program which provides incentives to increase productivity.... These changes are essential to provide the new investment which is needed to create millions of new jobs... and to make America competitive once again in the world market."

That approach, which served so well as a starting point for the tax policy deliberations four years ago, can perform the same function this year.

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